

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

ADREA, LLC,

Plaintiff,

v.

13 Cv. 4137 (JSR)

BARNES & NOBLE, INC.,
BARNESANDNOBLE.COM LLC, AND
NOOK MEDIA LLC,

Defendants.

October 10, 2014
2:00 p.m.

Before:

HON. JED S. RAKOFF

District Judge

APPEARANCES

PROSKAUER ROSE LLP
Attorneys for Plaintiff
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SUSAN BRACKNEY ARNI

1 (Trial resumed; jury not present)

2 THE COURT: Good afternoon. We are here for a Daubert
3 hearing. Let me first exclude from the courtroom all witnesses
4 except for the first one who will testify, who is Mr. Barnes.

5 We have a lot to do here, but we have a particularly
6 attentive jury, so I'm sure we will be able to move forward
7 expeditiously.

8 Please get Mr. Barnes here on the stand.

9 NED BARNES,
10 called as a witness by the Court,
11 having been duly sworn, testified as follows:

12 THE CLERK: State your name and spell it slowly for
13 the record.

14 MR. EDERER: My name is Ned Barnes, N-E-D B-A-R-N-E-S.

15 THE COURT: Mr. Barnes, very briefly, tell us your
16 background.

17 THE WITNESS: My background. I graduated in 1991 from
18 George Mason University with a degree in accounting. I
19 practiced as a CPA for approximately six or seven years, at
20 which time I got into financial consulting, including
21 consulting related to dispute resolution and litigation
22 support. I have been a practicing economic consultant and
23 forensic accountant for approximately 15 to 20 years.

24 THE COURT: Were you retained by Barnes & Noble in
25 this case?

1 THE WITNESS: I was, your Honor.

2 THE COURT: What are you charging?

3 THE WITNESS: I'm sorry?

4 THE COURT: What are you charging?

5 THE WITNESS: My firm charges I believe it is 475 an
6 hour for my time.

7 THE COURT: So far, how much billable time has been
8 run up?

9 THE WITNESS: In terms of dollar value, I believe that
10 total invoices for my time and people working at my direction
11 is probably in the neighborhood of 175 to \$200,000.

12 THE COURT: We will begin with counsel for the party
13 challenging Mr. Barnes's testimony, which is plaintiff's
14 counsel.

15 MR. CABRAL: Thank you, your Honor.

16 EXAMINATION

17 BY MR. CABRAL:

18 Q. Good afternoon, Mr. Barnes.

19 A. Good afternoon.

20 Q. You provided opinions in this case relating to a reasonable
21 royalty for infringement of the patents-in-suit, correct?

22 A. That is correct.

23 Q. In your report you rely on a license and settlement
24 agreement between Amazon, Discovery, and ADREA executed in
25 2011, is that right?

1 A. That was one of the pieces of information I considered,
2 yes.

3 Q. You say in your expert report that the royalty rates
4 associated with the Amazon agreement provide a reliable basis
5 to conservatively analyze the rates that would be given and
6 agreed to in a hypothetical negotiation in this case, is that
7 right?

8 A. I believe you have accurately reflected my summary
9 conclusions, yes.

10 Q. Thank you.

11 THE COURT: What did you conclude, if there was an
12 infringement in this case, was the rate you would assign?

13 THE WITNESS: For all three of the patents, your
14 Honor, it was 10 cents per unit. But I provided separate
15 calculations for each of the three patents if less than three
16 are found to be valid and infringed.

17 THE COURT: You are aware that the plaintiff's expert
18 says it should be 50 cents a unit?

19 THE WITNESS: I was and I am, yes, your Honor.

20 THE COURT: So there is this modest difference of 500
21 percent between your estimate and his estimate?

22 THE WITNESS: That is correct, sir.

23 THE COURT: Go ahead, counsel.

24 BY MR. CABRAL:

25 Q. I'll skip ahead and get right to the subject matter we have

1 just talked about.

2 THE COURT: Always a good idea.

3 Q. The royalty rate that you have, is it correct that you
4 calculated per-unit rates of 8 cents and 4 cents associated
5 with a license to the Discovery ebook patent portfolio?

6 A. I'm sorry. Say that again. I didn't follow that. I
7 apologize.

8 Q. Is it correct that you calculated per-unit rates of 8 cents
9 and 4 cents associated with a license to the Discovery ebook
10 patent portfolio?

11 A. I calculated 8 cents as the royalty rate for both the '851
12 and the '501 patent, and 4 cents, a maximum of 4 cents, for the
13 '501 patent only.

14 Q. If we can bring up page 48 of your expert report. You
15 submitted an expert report in this case, correct?

16 A. I did.

17 Q. If we could bring up page 48. Specifically, in paragraph
18 89, which is towards the bottom half of that page, in the
19 middle, about four lines down, you say, "Based on this
20 analysis, I calculated a per-unit royalty of 8 cents associated
21 with a license to the Discovery ebook patent portfolio." Do
22 you see that?

23 A. I do.

24 Q. That rate is for all of the Discovery patents owned by
25 plaintiff ADREA, correct?

1 A. You're right, that would be the rate. I conservatively
2 made the decision not --

3 Q. That's right --

4 THE COURT: Wait. I don't want interruptions.

5 MR. CABRAL: No problem.

6 THE COURT: You were saying.

7 A. I was just saying I made the decision to conservatively not
8 apportion any of that value to any of the other patents that
9 were in the portfolio. In other words, I attributed all of the
10 value that I had calculated to just the '851 and the '501
11 patent. Although, as you and I are both aware, there were many
12 other patents that were licensed in connection with that
13 agreement.

14 Q. The 8 cent royalty that you have here, that's good until
15 December of 2012, is that right? That applies to sales made
16 before December 2012?

17 A. You are correct. That would only apply until the
18 expiration of the '851, which was in December of 2012.

19 THE COURT: Let me ask you this. If there was
20 infringement in this case, the infringement would have occurred
21 beginning around 2009, yes?

22 THE WITNESS: That's correct, your Honor.

23 THE COURT: So the problem that both you and the other
24 damages expert had was how to calculate what royalty would have
25 been paid in a hypothetical negotiation that occurred in 2009

1 seeking to license these patents, yes?

2 THE WITNESS: That is correct, your Honor.

3 THE COURT: Was there any data from the 2009 period
4 that you utilized.

5 THE WITNESS: Yes, there was.

6 THE COURT: What was that?

7 THE WITNESS: I utilized information related to ADREA
8 and its predecessor's attempts to license the technology,
9 license their patent portfolio, unsuccessful, to a number of
10 other parties. That was economic information that I
11 considered.

12 THE COURT: Since those didn't result in actual
13 licensing, how did you factor that in?

14 THE WITNESS: Consistent with my analysis of the
15 Georgia-Pacific factors, that was a source of economic
16 information that I considered that would likely result in a
17 downward pressure on the outcome of the hypothetical
18 negotiation.

19 THE COURT: Then you still had to come up with a
20 figure, and that doesn't provide the figure itself; it just
21 provides a downward factor, yes?

22 THE WITNESS: That specific economic information did
23 not provide a specific figure, correct.

24 THE COURT: What did you primarily rely on? I had the
25 impression it was the Amazon settlement.

1 THE WITNESS: Yes, I utilized the Amazon agreement and
2 economic information that I believe was embedded in the Amazon
3 agreement as a starting point.

4 THE COURT: This was a settlement of a lawsuit brought
5 by ADREA against Amazon relating essentially to the same kind
6 of claims, yes?

7 THE WITNESS: I believe that is generally true, yes,
8 your Honor.

9 THE COURT: What led you to believe that a settlement
10 negotiation of a lawsuit was a reasonable proxy for an arm's
11 length fair market negotiation?

12 THE WITNESS: A couple of things, your Honor. First,
13 while I recognized that there was litigation surrounding the
14 negotiation, as a valuation professional and an empiricist,
15 someone who analyzes these types of issues for a living, the
16 circumstances surrounding that negotiation, while a relevant
17 factor and a relevant consideration, does not, in my view,
18 render the data irrelevant or such that we want to dismiss it.

19 Rather, we would want to investigate that particular
20 issue and other issues which I investigated to determine if
21 there are distinguishing characteristics or factors that we
22 would want to take into account in analyzing or juxtaposing the
23 Amazon agreement and the royalty terms associated with that and
24 what would likely have prevailed at the hypothetical
25 negotiation.

1 THE COURT: You said in your answer just now, first,
2 that the fact that it is a litigation doesn't mean that it is
3 irrelevant. Then you say, quote, Rather, we would want to
4 investigate that particular issue and other issues which I
5 investigated to determine if there are distinguishing
6 characteristics or factors that we would want to take into
7 account in analyzing or juxtaposing the Amazon agreement and
8 the royalty terms associated with that and with what would
9 likely have prevailed at the hypothetical negotiation, closed
10 quote.

11 Forgive me, but that doesn't tell me anything. What
12 you just said was in some ways it is the same and in some ways
13 it's different. What are the ways it is the same and what are
14 the ways it's different?

15 THE WITNESS: I apologize, your Honor, if I wasn't
16 clear. Let me try and state it this way. I identified four
17 specific factors that I made particular note of in my analysis
18 that I believe would potentially differentiate the royalty
19 terms that might have arisen from the Amazon agreement and what
20 might have been present in the hypothetical negotiations.

21 THE COURT: What were those factors?

22 THE WITNESS: The first was the general market
23 conditions associated with the two negotiation periods.

24 THE COURT: Because you would have to go back to 2009?

25 THE WITNESS: That's correct, you would have to go

back to 2009, and you would have to consider Amazon's position in the market relative to 2011 versus Barnes & Noble's position in the market in 2009.

THE COURT: OK.

THE WITNESS: Would you like me to explain that more, what I did?

THE COURT: Let me hear the four factors first.

THE WITNESS: The second factor is I considered the scope of the two agreements. The scope of the Amazon agreement with ADREA covered, as counsel has mentioned, the entire portfolio, which included many patents other than the three patents that are at issue here. It also included worldwide rights to many of those patents, whereas the hypothetical negotiation is only, to my understanding, addressing U.S. patent rights.

The third factor was I did take into account what I call the litigation issue or the fact that you've got some external pressure. Again, as a valuation professional, I don't think that ultimately makes a significant difference. But it is a factor that, all things being equal, I would consider would push the royalty rate higher in a hypothetical negotiation relevant to a litigation settlement.

The fourth factor was present in the Amazon agreement was a cross-license that Amazon provided back to Discovery. That is a consideration that would not have been, as I

1 understand it, present in the hypothetical negotiation. So I
2 tried to take that into account.

3 THE COURT: Let's take the third factor, the
4 litigation factor. How do you put a value on that factor?

5 THE WITNESS: It's difficult in the abstract to put a
6 specific monetary value on that one factor in this particular
7 case, where we don't have any economic information to try and
8 compare it to, say, a scenario where there wasn't a litigation
9 settlement environment.

10 What I did is I essentially weighted that, as I have
11 indicated previously, as a factor that, all things being equal,
12 would cause the hypothetical negotiation rate to be higher.
13 But that was counterbalanced by my discussion or my
14 consideration of the other factors.

15 Q. What you are saying is although you thought that that
16 factor would, if anything, have led the Amazon rate to be
17 higher than an arm's length rate, you thought whatever degree
18 that was true is offset by the other factors?

19 THE WITNESS: Yes, your Honor, I believe that's
20 accurate.

21 THE COURT: Why do you think it would lead to a higher
22 rate?

23 THE WITNESS: Why do I think the fact of litigation
24 surrounding the negotiation?

25 THE COURT: Yes.

1 THE WITNESS: It potentially can lead to a higher rate
2 if there is a motivation on the parties, in this case
3 particularly Amazon, to pay a royalty not so much for the value
4 of the license in a negotiation that is free from all external
5 litigation threat or presence. What it really would boil down
6 to is the value proposition for what is being acquired, the
7 license.

8 THE COURT: What stage was that case at when it
9 settled.

10 THE WITNESS: I'm not particularly -- I believe it was
11 in the relatively early stages. I don't believe it had been
12 scheduled for trial.

13 THE COURT: Was there a claim, if you know, a counter-
14 claim or cross-claim by Amazon to invalidate the patents?

15 THE WITNESS: I believe that there was, yes, your
16 Honor.

17 THE COURT: Wasn't the litigation risk potentially as
18 great, if not greater, for the plaintiff than it was for the
19 defendant?

20 THE WITNESS: Yes, your Honor, that is a fair point.
21 You could argue that whatever risk is embedded in the
22 litigation environment would be potentially equal or greater
23 for the patent holder as it would be for the accused infringer.
24 I approached this and my consideration of this factor more from
25 a conservative positioning where I wanted to identify what the

1 potential inflation factor could be on a hypothetical
2 negotiation. I was less concerned in my analysis of it going
3 in the other direction.

4 THE COURT: Hypothetically, if, after some initial
5 skirmishing, ADREA had begun to fear that it might have its
6 patents invalidated, they might have had a motivation to take
7 whatever was offered even if it wasn't what they would have
8 gotten in an arm's length negotiation before the litigation.

9 THE WITNESS: That is equally a fair point. That is
10 the risk on the side of ADREA entering into that negotiation
11 and choosing to settle as opposed to pursue litigation.

12 THE COURT: Let me ask you a different question. You
13 said, I think, the first factor was that you had to look at
14 relative bargaining or market position as of 2009 as opposed to
15 2011. How did you determine that?

16 THE WITNESS: I looked at economic information that
17 was available in 2011, in which case Amazon had been in this
18 market, in the market for selling devices that were alleged to
19 utilize the ADREA patents, for approximately three or four
20 years. They were successful. They were, I believe, the
21 largest seller of dedicated ereader devices in the market at
22 that time. They had also just recently introduced a tablet
23 device called the Kindle Fire to a fair amount of fanfare at
24 the time and it was highly touted.

25 I juxtaposed that situation with 2009 in the case of

1 Barnes & Noble being a licensee or the prospective licensee, in
2 which case Barnes & Noble had not yet introduced a product. So
3 there was certainly a level of risk that both parties would
4 view, but particularly Barnes & Noble, as to whether they would
5 be successful or not in selling the devices that were alleged
6 to infringe.

7 THE COURT: If I understand what you just said, Amazon
8 is already out there with the Kindle, saying this is the
9 greatest thing ever and Barnes & Noble isn't even into the
10 marketplace in this regard yet. If Barnes & Noble really
11 wanted to enter this market, why wouldn't that make them, if
12 anything, more anxious to quickly acquire the license for the
13 patented invention so they could enter into this market before
14 it was totally taken over by Amazon?

15 THE WITNESS: That would be a potentially relevant
16 consideration on the part of Barnes & Noble. But I also
17 believe that Barnes & Noble would be entering the negotiation
18 and saying we are not out there in the market yet, we don't
19 have a successful product, we don't know if we are going to
20 have a successful product, and that's going to limit our
21 ability to pay a license fee or significant license fee when we
22 don't even know yet if we are going to have a significant
23 presence in the market.

24 It's also slightly different in the context of when
25 you compare it to Amazon because it may present Barnes & Noble

1 with an opportunity to say, rather than take a license to that
2 particular feature or that particular patent, we can just take
3 that out or we can design around that or we can do something
4 different. They don't have the issue of having an installed
5 base out there where they have already gone about and invested
6 in promoting a product that utilizes, potentially or allegedly
7 utilizes the patents that are at issue.

8 THE COURT: What I guess I'm getting at is wouldn't
9 either of those approaches be equally reasonable? It would
10 depend perhaps on the personality of the negotiators, how much
11 Barnes & Noble were guessing that they could make a splash in
12 this market or not, whether, if their company was suffering,
13 they sort of wanted to make a Hail Mary pass, or whether they
14 viewed it as something that was too risky to do more than a
15 modest investment? Wouldn't all those things be equally
16 plausible?

17 THE WITNESS: I don't disagree with you that they are
18 not plausible. But in analyzing the potential economic
19 ramifications of a negotiating position, I generally believe --
20 and this I believe is consistent with the typical Georgia-
21 Pacific analysis, where some of these factors are explicitly
22 set forth -- that a product that is successful, a product that
23 has significant profits, has significant sales, has significant
24 market share, that is, all things being equal, is generally
25 likely to favor the patent holder in terms of negotiating a

1 royalty versus a product that is not established, not yet
2 commercially available, not commercially successful.

3 I agree with you, we don't know precisely, but we have
4 to try and exercise judgment in analyzing the economic
5 ramifications of that situation.

6 THE COURT: What was, if you know, Barnes & Noble's
7 overall economic position as of 2009? Where they in trouble?
8 Were they doing OK at that point?

9 THE WITNESS: Your Honor, I apologize. I probably
10 should know that. I don't have that information at the tip of
11 my fingers right now. I believe that they were somewhat -- I
12 just don't know. I don't think they were in significant
13 financial straits at that time, but I could stand to be
14 corrected on that.

15 THE COURT: Shifting gears again, you made certain
16 projections -- let me make sure I get this right -- as to
17 Amazon sales to arrive at a proxy for what adjusted Barnes &
18 Noble sales would be?

19 THE WITNESS: That's correct. What I tried to do was
20 analyze the economics, the economic underpinnings, of the
21 Amazon agreement in order to derive what I believed would be a
22 per-unit rate associated with that agreement.

23 THE COURT: For the 2011 sales, you relied on data
24 from something called International Data Corporation?

25 THE WITNESS: That is correct. That was a source of

1 information, of data from 2011, because there wasn't actual
2 data in the record for 2011.

3 THE COURT: As it turned out, the International Data
4 Corporation's estimates were very much larger than what turned
5 out to be the case, yes?

6 THE WITNESS: No, I don't believe that is accurate. I
7 still to this day don't have actual data for 2011. But I did
8 point out that there was information in the record on Amazon's
9 own estimate -- it was partial-year, their own partial-year
10 estimates for 2011 -- and the IDC data for 2011 is reasonably
11 in line with those internal Amazon documents.

12 THE COURT: The IDC estimates for 2011 were 370
13 percent larger than the actual sales for 2010, right?

14 THE WITNESS: Compared to 2010, yes, sir, that's
15 correct.

16 THE COURT: That's a huge increase. What would be the
17 basis for that estimate?

18 THE WITNESS: Part of the basis is, as I mentioned
19 earlier, in the last quarter of 2011 Amazon introduced a new
20 product called the Kindle Fire. The information I reviewed
21 indicated that sales of that product alone were in the
22 neighborhood of 5 or 6 million units for just one quarter, part
23 of one quarter.

24 THE COURT: You think that would be a reasonable basis
25 for the IDC conclusion that there would be a very large

1 increase in sales between 2010 and 2011, yes?

2 THE WITNESS: I do.

3 THE COURT: I understand. Why didn't you choose the
4 IDC estimates for 2012 and 2013?

5 THE WITNESS: The reason I did not utilize estimates,
6 actual estimates for actual data for 2012 and 2013 is because I
7 was trying to put myself in the position of the parties to that
8 agreement, ADREA and Amazon, in 2011 in analyzing the economic
9 underpinnings that led them to conclude, those two parties to
10 conclude that Amazon were going to pay and ADREA was willing to
11 accept the royalties that came out of that agreement.

12 Information that I reviewed on the part of both
13 available industry data as well as ADREA's own documents
14 indicate that there was a belief, a view, that there was going
15 to be continued growth in those products. What happened
16 subsequent to that point is not particularly relevant to
17 putting yourself in the mindset of the actual negotiation in
18 2011 that yielded the agreement.

19 THE COURT: Instead you used, I think, from 2012 on a
20 10 percent growth rate.

21 THE WITNESS: That's correct.

22 THE COURT: Where did you get that?

23 THE WITNESS: I considered a number of available
24 industry services that were available at that time or
25 surrounding that period of time where various analysts,

1 industry and market analysts, were making forecasts for the
2 market for ereaders and associated tablet devices that covered
3 the period from 2012 to 2016.

4 THE COURT: Were they all the same?

5 THE DEFENDANT: They were roughly in the neighborhood
6 of low 20s to 30 percent or so. Again, I wanted to be
7 conservative in my estimate, so I dialed that back down to 10
8 percent.

9 THE COURT: Were they reliable, in your view?

10 THE WITNESS: I believe they would have been reliable
11 in the sense that this would have been information that would
12 have been available to ADREA, for example, in its discussions
13 with Amazon in its efforts to try and convince Amazon to pay a
14 royalty.

15 THE COURT: So why dial it down?

16 THE WITNESS: That was just a judgment call I made to
17 be conservative. If I had put in 20 or 30 percent, I don't
18 have those exact calculations at the top of my head, but it
19 would have resulted in a somewhat lower royalty rate.

20 THE COURT: I understand it would have cut even lower.
21 I guess the question I'm asking is, this is part of it is not
22 your calculation. It is in effect taking what the analysts out
23 there, using whatever information they may or may not have had,
24 seemed to have arrived at a consensus which may or may not have
25 proved to be accurate. You felt that, nevertheless, under

1 these circumstances taking account of that consensus made
2 sense. If that is true, then I don't see what the basis is for
3 dialing it down.

4 THE WITNESS: Your Honor, it was just my conservative
5 nature, my conservative judgment that I would rather not
6 utilize the full growth that was reflected in those forecasts
7 or projections, knowing that --

8 THE COURT: That you were going to be cross-examined
9 on it?

10 THE WITNESS: Obviously, I know if I had taken a more
11 aggressive approach, it would be subject to maybe a little more
12 strenuous cross-examination. But I felt that it was the right
13 approach in this case.

14 THE COURT: All right. Counsel.

15 BY MR. CABRAL:

16 Q. If I could follow up with a few questions about the actual
17 IDC data you and your company received.

18 A. Sure.

19 Q. We received a native file -- we actually have it here, your
20 Honor, we received it after filing our motion -- the actual IDC
21 historical estimates for Amazon which shows estimates for 2010,
22 2011, 2012, and three quarters of 2013. We can bring that up
23 on the screen if it is helpful. I will ask you a few questions
24 about it right now.

25 Are you aware that the IDC historical estimate for

1 Amazon sales in 2012 dropped from 19.6 million to 14.1 million?

2 A. I am familiar with that, yes.

3 Q. Then are you also familiar with the fact that the IDC
4 historical estimate in 2013 dropped from 14.1 million to
5 8.8 million?

6 A. Those numbers, I don't have a recollection of those
7 numbers. If you've got them here, I'd be happy to. That
8 doesn't ring a bell.

9 Q. We can do the math here if it is helpful. Are you aware of
10 any information regarding IDC historical estimates for 2013?

11 A. I was aware or I am now aware of the three quarters of
12 information for 2013.

13 Q. Did those numbers show a growth rate or a decline?

14 A. Those numbers were lower than two thousand -- they were
15 lower than the three quarter period for 2012. They did not
16 included the fourth quarter, which is where a significant
17 portion of the sales occur every year in this market.

18 Q. Is it fair to say that the numbers were considerably lower
19 than the prior year?

20 A. For the three quarter period? For the three quarter period
21 I believe they declined from -- I don't have the numbers
22 committed to memory. They declined by some degree, yes.

23 Q. Did you know this information when you submitted your
24 expert report?

25 A. As I was discussing earlier, the information on actual

1 sales of Amazon products or accused products after 2011 were
2 not particularly relevant to me because of reasons that I have
3 already stated, that I was trying to put myself in the position
4 of the parties to that agreement in 2011. I don't recall
5 seeing that information when I filed my report.

6 Q. I understand they may not have been relevant to you. But
7 did you have access to that information when you submitted your
8 expert report in this case?

9 A. The information was clearly available. That's not a
10 question.

11 Q. It was available in the spreadsheet that was provided to
12 you by IDC, correct?

13 A. I understand that this information, the information that
14 you have described, was included in the spreadsheet. I did not
15 look at the spreadsheet personally. I requested information
16 for the 2011 period, and that was provided to me.

17 Q. Is it fair to say in your expert report you projected a 10
18 percent growth rate for 2012 when the IDC data actually
19 reflected a significant decline in Amazon historical estimates?

20 A. You are correct that I projected, as I have already
21 discussed, I projected a 10 percent growth rate based on
22 information that I considered would have been known or at least
23 foreseeable by the parties in 2011 notwithstanding what
24 occurred after that date.

25 Q. Is it also correct to say that you projected another 10

1 percent growth in 2013 despite the IDC data reflecting
2 significant declines in Amazon's historical sales?

3 A. I did. Again, for the purpose of my use of that
4 information, it was not relevant to understanding how the
5 parties arrived at the value proposition that they arrived at
6 in 2011. It was relevant what they would have considered at
7 that time, not what happened subsequently.

8 THE COURT: I understand that. But why is 2011 the
9 relevant date? Isn't 2009 the relevant date?

10 THE WITNESS: Again, your Honor, what I am trying to
11 utilize here, I am trying to analyze this agreement, which
12 occurred in 2011, and evaluate the economic underpinnings of
13 this agreement to try and derive a value data point, a relevant
14 data point. Then I took the next step of considering that data
15 point in juxtaposition to what might have occurred in 2009. It
16 was a two-step process.

17 THE COURT: Counsel, I'm going to give you five more
18 minutes.

19 MR. CABRAL: Thank you, your Honor.

20 BY MR. CABRAL:

21 Q. Did you compare the IDC data that was provided to you in
22 the Tablet Tracker against the actual 2010 numbers produced by
23 Amazon?

24 A. I don't recall whether I did or I didn't. My understanding
25 is that there is some variation in those numbers from what was

1 reflected in the Amazon actual records. Because I had Amazon
2 actual records for 2010, I chose to utilize those instead. I
3 believe those were a more relevant indication of Amazon's
4 sales.

5 Q. Are you aware that the IDC estimate for 2010 reflecting
6 Amazon's historical sales overstated the actual numbers by
7 approximately 800,000 units?

8 A. That number sounds about right. I think it was 5 million
9 plus or minus in the actual Amazon records and closer to
10 6 million in the IDC data.

11 Q. Did that inform your opinion as to the accuracy of the IDC
12 data?

13 A. It's a relevant consideration. But as I mentioned earlier,
14 again, I only used the IDC data for 2011 and I considered that
15 in comparison to Amazon's own data for estimated 2011 sales.
16 It was generally in line with that data. So, I wasn't
17 concerned about the accuracy of the IDC data. In my business I
18 have utilized IDC data on a number of occasions.

19 Q. Had you used the IDC data for 2010, 2011, 2012, and 2013,
20 that is, all of the IDC data that was available to you when you
21 submitted your expert report, is it fair to say that your
22 per-unit rate using the same methodology you used would be
23 significantly higher than the rate that was reported in your
24 expert report?

25 A. I don't know exactly what those numbers would work out to

1 be. I haven't done that calculation. I don't know. I know
2 that if you were to take, for example, the -- if we were to
3 utilize -- I don't believe it is appropriate to utilize the
4 actual data, because it is not something that would have been
5 known by the parties when they negotiated that agreement.

6 But if you were to utilize that information and then
7 carry it forward in a manner consistent with, for example, what
8 Professor Magee did, I think you would probably get a somewhat
9 higher royalty rate. I think I calculated it to be about 15
10 cents instead of 10 cents.

11 THE COURT: Since Professor Magee, who we will hear
12 from very shortly, came up with a very different rate than you
13 did, you must believe that his methodology was flawed, yes?

14 THE WITNESS: I do, your Honor.

15 THE COURT: If you had to describe the one or two
16 largest flaws, what would they have been?

17 THE WITNESS: The two that I would point to, your
18 Honor, is, one, he applies a 50 cent rate to the entire time
19 period irrespective of which patent might be hypothetically
20 being utilized by Barnes & Noble.

21 THE COURT: That might be a mistake, but that wouldn't
22 account for the difference between 50 cents versus 10 cents,
23 would it?

24 THE WITNESS: No, your Honor. In total it would still
25 be 50 cents versus 10 cents for the period of all three. That

1 was just one criticism.

2 The primary criticism that I would argue against the
3 50 cent rate is it is not based on any actual fair market value
4 transaction where any party has actually agreed to take a
5 license and pay any money at that rate. The only document that
6 I am aware of in this entire case that supports the 50 cent
7 rate that he utilized was a proposal that ADREA made to Barnes
8 & Noble in 2012, I believe, a proposal that was rejected.

9 Again, in my business as a valuation professional, an
10 offer, a proposal that is made by one party, does not provide
11 much economic evidence of fair market value, particularly when
12 that offer was rejected.

13 THE COURT: In other words, if I understand what you
14 are saying, the Amazon settlement may not be a perfect proxy
15 for the negotiations. It's a little bit in some respects like
16 comparing apples and oranges. But at least apples and oranges
17 are both fruit. He doesn't have any fruit at all is what you
18 are saying? Not perhaps in those words.

19 THE WITNESS: That is an interesting characterization,
20 your Honor. I don't think I would disagree with that.

21 (Continued on next page)

1 THE COURT: One more question or one more quick line
2 of questions.

3 MR. CABRAL: I will.

4 BY MR. CABRAL:

5 Q. Is it correct that you apportioned the royalty rates in
6 your expert report on a per patent basis and arrived at one
7 one-thousandth of a cent of an effective per unit royalty rate
8 for the '703 patent at issue in this case?

9 A. I did a calculation that would evaluate what it would be if
10 you did it on a per patent basis for the whole portfolio. The
11 opinion that I presented for the '703 patent is it would be two
12 cents per unit.

13 Q. That's for the entire portfolio, the Philips portfolio,
14 correct?

15 A. It's also for what I advanced in my calculation for the
16 licensing of the '703 patent.

17 MR. CABRAL: With your permission, I will just show
18 him one last exhibit and ask one last question.

19 THE COURT: OK.

20 MR. CABRAL: If we can put up Supplemental Exhibit 5,
21 which is a summary of reasonable royalties.

22 Q. This document reflects your per patent apportionment
23 royalty rates for the three patents at issue in this case,
24 correct?

25 A. This is the calculation that I presented that does it on a

per patent basis, but Supplemental Exhibit 4 had the calculations that I have actually advanced as my opinion for the outcome of the hypothetical negotiation.

Q. The calculation that you used, you divided your royalty rate for the portfolio and divided equally amongst the number of patents in the portfolio, isn't that right?

A. Not in connection with the opinion I have advanced as to what the appropriate outcome of the hypothetical negotiation would be.

Q. With regard to this opinion right here in Exhibit 5 showing an effective per unit rate for each of the patents-in-suit in this case that would be correct, right?

A. This is an illustrative example of the calculation if it were done on a per patent basis.

MR. CABRAL: Thank you, your Honor.

THE COURT: I will give plaintiff's counsel a few minutes. I mean defense counsel.

EXAMINATION

BY MR. EDERER:

Q. Mr. Barnes, I just want to clarify one thing. There was some testimony earlier with respect to the question of whether there would be a downward or upward pressure at the time of the hypothetical negotiation with respect to the fact that the Amazon agreement was the settlement of a litigation versus the hypothetical negotiation being not involving litigation. Do

1 you recall that?

2 A. I do.

3 Q. Would you just clarify which way you concluded, whether the
4 pressure would be upward or downward, at the time of the
5 hypothetical negotiation with respect to that issue?

6 A. Well, with respect to that issue -- again, I believe this
7 was a conservative evaluation of that criteria -- I concluded
8 that it would provide upward pressure in connection with the
9 hypothetical negotiation, although, as his Honor points out,
10 you could actually make that argument either way.

11 Q. So the question then would be: When you say upward
12 pressure, you mean that Barnes & Noble would pay more as a
13 result of the fact that this was not a litigation negotiation
14 or less?

15 A. That they would pay more.

16 MR. EDERER: I think that, your Honor, when you asked
17 the question to Mr. Barnes, it may have been in reverse. I
18 just want to make sure the record is clear.

19 THE COURT: Well, I am just a dumb judge, but now I
20 don't think I understand your analysis at all.

21 I thought your original position, recognizing that
22 this was not a major factor as you analyzed it in any event
23 because you felt it was washed out or contradicted by other
24 factors, was that Amazon would have paid some amount of money,
25 in terms of the licensing agreement that they entered into with

1 the plaintiff, that was reflective not on what they really
2 thought was its fair market value, but because they wanted to
3 get rid of the litigation. Did I misunderstand that?

4 THE WITNESS: I don't think you misunderstood it, and
5 I apologize. I think I was trying to respond to your question,
6 which I thought was asking about why it could influence in the
7 other direction.

8 THE COURT: And there are factors going both ways,
9 which I think you wound up agreeing with.

10 Just taking that one factor, if Amazon was of the
11 view, we don't want years of litigation in federal court, where
12 there is broad discovery, where the attorneys charge an arm and
13 a leg, so to get rid of these folks, even though we don't think
14 they have got a case, we will pay a little bit more, then, to
15 the extent you can quantify that, that would mean that the
16 arm's-length negotiation that was hypothetically had with
17 Barnes & Noble should be at a lower royalty, yes?

18 THE WITNESS: That's correct. Focusing just on that
19 piece, I agree.

20 THE COURT: I think that's different from what you
21 were just trying to bring out, counsel.

22 MR. EDERER: I was just trying to clarify based upon
23 what Mr. Barnes actually said in his report.

24 THE COURT: We went through that. I understand your
25 point. That's a good one too. Anything else?

1 MR. EDERER: No, your Honor. That's it.

2 THE COURT: Thank you so much. You may step down.

3 (Witness excused)

4 THE COURT: Would someone go get Mr. Magee and bring
5 him here?

6 MR. EDERER: Would you like Mr. Barnes to stay in the
7 building?

8 THE COURT: No. I don't want him in the courtroom
9 because he is going to be testifying later at trial. He is
10 more than welcome, of course, to wander through the courthouse
11 observing the beauties of the place, but if he would like to
12 leave, he may leave.

13 STEPHEN PAT MAGEE,

14 called as a witness by the Court,

15 having been duly sworn, testified as follows:

16 THE DEPUTY CLERK: State your name and spell it slowly
17 for the record.

18 THE WITNESS: My name is Stephen Pat Magee, Stephen
19 with a P-H, P-A-T, M-A-G-E-E.

20 THE COURT: Mr. Magee, tell us very briefly about your
21 background.

22 THE WITNESS: All right. My background is I grew up
23 in Lubbock, Texas. I went to Lubbock High School. I went to
24 Texas Tech as an undergraduate, majored in economics and
25 mathematics. I have a Ph.D. from MIT in economics.

1 I went on and taught at the University of California
2 at Berkeley for two years, the University of Chicago for five
3 years, the University of Texas about 38 years, and in the
4 interim I did three one-year visits at the University of
5 Chicago in the 1990s.

6 THE COURT: And you were employed in connection with
7 this litigation by the plaintiff ADREA, yes?

8 THE WITNESS: Yes.

9 THE COURT: How much are you charging?

10 THE WITNESS: I am charging \$600 an hour.

11 THE COURT: So far, approximately how much have you
12 run up in terms of billable time for you and any persons
13 working with you?

14 THE WITNESS: This is just a guess, your Honor. I
15 would guess around 150,000 or more. I'm not sure.

16 THE COURT: Go ahead, counsel.

17 EXAMINATION

18 BY MR. EDERER:

19 Q. Professor Magee, you have opined that the per device
20 royalty rate that the parties for this litigation would have
21 negotiated hypothetically in 2009 was 50 cents per Nook device,
22 correct?

23 A. That's correct.

24 Q. Is it true, sir, that you have not broken that 50 cent rate
25 down patent by patent?

1 A. The rate, no.

2 Q. In fact, you have opined that no matter how many patents
3 are in the picture, it's still 50 cents per device, correct?

4 A. Yes.

5 Q. So if, for example, if only the '703 patent were in the
6 picture, the rate would still be 50 cents, correct?

7 A. Correct.

8 Q. How much would it be for the '851 patent alone?

9 A. It would also be 50 cents.

10 Q. How much for the '703 patent alone?

11 A. It would be 50 cents.

12 Q. So it's your position that Barnes & Noble would have agreed
13 to pay a 50 cent royalty even if it was licensing only one or
14 two of these three patents, is that correct?

15 A. Yes. The rate would be constant; the amounts paid would be
16 different.

17 THE COURT: Why would the rate be constant?

18 THE WITNESS: The rate would be constant because this
19 is typically how patent license agreements are done. If you
20 look at all of the agreements in the GP-2 frequently, most of
21 those agreements in there are either lump sum or reasonable
22 royalty once the rate has been determined, and patents come and
23 go, but they are still all paying the same royalty rate per
24 unit.

25 THE COURT: How did you arrive at the 50 cents?

1 THE WITNESS: The 50 cents, there are three or four
2 hard metrics that I looked at that I think point to 50 cents.
3 There was the PCT capital evaluation back in May of 2008 that
4 gave a value. There was an Intertrust value that was given in
5 2009, right about the month of the hypothetical. There was an
6 offer that ADREA made in approximately June or something 2012.
7 All three of those numbers -- the last one, the offer was 50
8 cents. All of the other numbers were substantially above,
9 anywhere from a dollar to five dollars.

10 THE COURT: Let's take the last number.

11 So they make an offer of 50 cents and the offer is
12 rejected?

13 THE WITNESS: Yes, sir, it was.

14 THE COURT: So why wouldn't the common sense of that
15 be that if there is a negotiation that then goes on, it's going
16 to wind up at something less than 50 cents?

17 THE WITNESS: Your Honor, the thing that was rejected
18 was not the 50 cents. It was the combination of the 50 cents
19 and the number of units involved. So that offer was basically
20 \$12-1/2 million. There was another offer of \$15 million. It's
21 the amount, I believe, in my opinion the amount was rejected.

22 What I am asking for here would be 50 cents for all
23 running royalty damages up to the time of trial of \$6 million,
24 not 12-1/2 or 15. And I think it's reasonable that the parties
25 would pay, Barnes & Noble would pay 7.7 million for the entire

1 life of all the patents. So what changed was the total
2 package. My number is about half or so of the total package.

3 More importantly, as you know, your Honor, what
4 happens in negotiations is there is an argument between the
5 parties over whether these patents are valid and infringed or
6 not. It's typically the defendant's position that these
7 patents are not valid, they are not infringed, and so we don't
8 want to pay for it. That would have been true around the time
9 of the offer. I don't know what the reasons were why they
10 rejected the offer, but they rejected it. And those kind of
11 arguments would be there.

12 That is not true here in court today. What is true
13 here in court today is damage experts like myself and
14 Mr. Barnes are asked to assume that the patents are valid,
15 infringed and enforceable, and that eliminates all of the
16 uncertainty that goes on in private negotiations. So that
17 eliminates a major element of risk, and I think that's the
18 important part.

19 THE COURT: Am I right that there was no actual
20 contract entered into with anyone regarding these patents, so
21 you have to infer indirectly what the result would have been
22 because you can't look at any actual arm's-length negotiation
23 that went on, say, with another purchaser?

24 THE WITNESS: That's not quite true. I didn't mention
25 the Amazon agreement. I think the Amazon is very relevant

1 here. The Amazon agreement is an actual agreement, and that
2 actual agreement gave a \$10 million value to just 14 of the
3 patents that were the Discovery patents. So that gives a
4 measure, a metric. And then there is another 2-1/2 million,
5 basically, for the Sony and Philips patents. That gives an
6 arm's-length measure that doesn't help us on the royalty rate
7 directly, but it goes to insight into the value of the life of
8 the patent for its life.

9 So I do use that as a calibrator to check the
10 reasonableness of my \$7.7 million lump sum royalty. I think
11 that's the value in that license.

12 THE COURT: Why isn't that also then at least
13 inferentially relevant to determining the rate?

14 THE WITNESS: It is, your Honor. My 50 cent rate for
15 the life of these patents, present value back to November 2009,
16 gives you a number of 7.7 million. I can show you, if you want
17 me to, the link where I see, because of validity and
18 infringement not being present -- there was no clarity about
19 that in that negotiated rate so the rate would be much higher
20 than the 10 million if you adjust for validity and
21 infringement.

22 THE COURT: I hear what you're saying, but there were
23 factors going both ways, were there not?

24 You're saying right now, for your purposes, you are
25 required to calculate what would have been the negotiated rate

as of 2009 if it was acknowledged that there was infringement, or acknowledged that ADREA's patents had to be used to produce the Nook. And you're saying in the Amazon situation, there were other factors that would have cut down the rate because there Amazon was saying, we don't owe you a cent, but we are willing to negotiate a license anyway. Do I have that right so far?

THE WITNESS: That's right. The way I would characterize it more is the \$10 million is low because if you adjusted that for validity and infringement, you know these multiples that go into validity and infringement, sometimes they are 50 percent, those are in academic articles. And then you have on top of this, they got a discount for being the first party to be a license, and that I have seen numbers there quite large. So maybe that agreement could have been, in my mind, maybe 20 million. Then you compare that with my 7.7 million, and I think that gives some basis for comfort both with the lump sum I calculated, which is like Amazon to the lack of the patents, and to my 50 cent rate.

THE COURT: I guess I am having a little trouble in figuring it out. If you were to translate or make an analogy between the Amazon settlement and the fair market negotiation with Barnes & Noble that you have to hypothesize here, what factors would you seek to eliminate and which way would they cut?

1 THE WITNESS: All right. There's a couple. I
2 mentioned one or two.

3 In order to compare the Amazon with my lump sum, we
4 need to do the one I already mentioned about validity
5 infringement and a first licensee discount.

6 In addition, there is additional value --

7 THE COURT: Let me stop you on that one.

8 You're saying that Amazon would have been paying more
9 or less because it was taking the position that the patents
10 were in fact not infringed?

11 THE WITNESS: They took the position that
12 they -- there is uncertainty as to whether those patents are
13 valid or infringed. So that uncertainty would cut the number
14 down. If in court they were found to have infringed and the
15 patents were valid, that would give you a bigger number.

16 THE COURT: You're saying Amazon is paying less than
17 they would otherwise have paid if they knew the patents were
18 infringed. They are paying less because they recognize that
19 ADREA has to take into account the fact that they may not be
20 able to prove infringement?

21 THE WITNESS: Yes, sir, they may not be able to prove
22 infringement. They don't think the patents are valid, they
23 don't think they are infringed, and so there is a discount
24 there. If they think they are not valid or infringed at all,
25 they don't have to pay anything. If ADREA says, no, we are 100

1 percent sure it is valid and infringed, they are saying it's
2 100 percent sure. So one party says zero, one says 100
3 percent, let's just take the average. There's a 50/50 chance
4 these patents are not infringed. That gets you from 20 million
5 down to 10 million.

6 THE COURT: Why isn't that offset by Amazon's
7 recognizing that they have to face maybe years of expensive
8 litigation and they should be willing to pay something?

9 THE WITNESS: You're right, your Honor. The expected
10 cost of litigation is a factor that goes the other way that
11 would lower that \$10 million number for the reason you just
12 stated.

13 On the other hand, there is one other thing, and that
14 is, in the agreement Amazon agreed to give a number of their
15 patents over to ADREA. So that has value. And so I don't know
16 how these nets balance out, these contrary forces, but they are
17 in opposite directions.

18 THE COURT: Go ahead, counsel.

19 BY MR. EDERER:

20 Q. Professor Magee, just to be clear, if the parties had sat
21 down in November 2009 to negotiate a license with respect to
22 the '851 patent alone, you're saying that they would have
23 agreed to a 50 cent royalty rate, is that correct?

24 A. Yes, sir, but only for the units that were sold, yes.

25 Q. I am just talking about the royalty rate.

1 A. Yes.

2 Q. If they sat down and negotiated a license for the '703 and
3 the '851, you're saying that the rate would still have been 50
4 cents?

5 A. Yes, sir.

6 Q. If they sat down and negotiated a license for all three
7 patents, you're saying the rate would still be 50 cents?

8 A. Yes.

9 Q. So if the jury finds in this case that one or more of the
10 patents that are at issue are either not infringed or invalid,
11 you're saying the rate is still 50 cents?

12 A. The rate is 50 cents, but if you're down to one or two
13 patents left, then the amounts all drop because of the royalty
14 base.

15 Q. Are you saying that each of these patents has equal value?

16 A. In my opinion, yes, based on all the evidence in the case,
17 each one of these three patents individually contributes more
18 in my opinion than 50 cents per unit to Barnes & Noble.

19 Q. Each one by itself. So then in that case, the royalty rate
20 should have been \$1.50?

21 A. Yes, sir, could have been. The way patents are licensed,
22 you typically give one rate in order to license the whole
23 package. It's kind of like the analogy of all-you-can-eat
24 restaurants. This is a deal where it doesn't matter. There's
25 a lot of businesses, Disney World, all-you-can-eat restaurants

are like this.

THE COURT: You have got to remember that all-you-can-eat restaurants are more common in Texas.

THE WITNESS: Maybe the jury won't understand that one. Hopefully, you know something about it.

Q. Professor Magee, each of these patents has a different expiration date, correct?

A. Yes, sir.

Q. So back in 2009, when the parties were hypothetically negotiating, the '851 had three years to go, right?

A. Yes, sir.

Q. And the '501 had six years to go, it's expiring in 2015, right?

A. Correct.

Q. The '703 patent was set to expire in 2026 so it had 17 years left to go?

A. Yes.

Q. So are you saying that there is no difference from the standpoint of what the value of the license would be from a royalty rate standpoint as far as the expiration dates are concerned?

A. That's not correct. What the value of the license is is the product of the royalty rate and the royalty base. So with that one correction, I am staying at 50 cents.

Now, you have to understand there is a 25 percent

discount that goes down to 25 cents per unit after about 2017 or 2018 because of the 20 million. Over 20 million units, there is a discount on the 50 cent rate down to 25 cents.

Q. Now, each of these patents covers a different function for the Nook, correct?

A. Yes.

Q. One relates to encryption, right?

A. It's security. I think it's broader than just encryption.

Q. That's pretty important, right?

A. Very important, yes.

Q. One of them is a lending feature, correct?

A. Correct.

Q. You could have a device without a lending feature, right?

A. You could have one, yes, sir.

Q. But you couldn't have a device without security, correct?

A. That's correct.

Q. One of them is a shopping feature, correct?

A. Correct.

Q. That shopping feature takes you to the Barnes & Noble bookstore?

A. Yes, sir.

Q. But you could also go to the Barnes & Noble bookstore other ways, right?

A. You could get to the online bookstore in other ways.

Q. As far as you're concerned, all of these features have

1 equal value?

2 A. Per unit. I quantified roughly, yes, per unit. In my
3 opinion, they are all worth more than 50 cents. So, therefore,
4 Barnes & Noble would be getting a deal to get all three of them
5 for 50 cents.

6 Q. How is it that if the parties had sat down to negotiate a
7 royalty with respect to one of the three patents, they would
8 come out with the same number that they came out with for all
9 three patents?

10 A. Be careful. The same number --

11 Q. The same royalty rate.

12 A. What would come out of the agreement would be the same
13 royalty rate, counselor, that's correct. But the amounts that
14 the parties would know would be different.

15 Q. Now, you testified earlier about an offer sheet that you
16 relied on that was provided by ADREA to Barnes & Noble back in
17 2012?

18 A. Correct.

19 Q. That offer sheet related to not just these three patents,
20 right?

21 A. That's right.

22 Q. It related to about 300 patents, correct?

23 A. Well, it related to about 50 U.S. patents, but 250 maybe is
24 worldwide.

25 Q. That was an offer for a license to Barnes & Noble for

1 somewhere in the nature of 300 patents on a worldwide basis,

2 correct?

3 A. Correct.

4 Q. And we are talking here about a license for three or less
5 patents on a U.S. only basis, and you're talking about the same
6 royalty rate, correct?

7 A. Correct.

8 Q. I want to ask you this: At the time of the hypothetical
9 negotiation in 2009, these patents were owned by two different
10 parties, correct?

11 A. Yes, sir.

12 Q. Two of them were owned at the time by Discovery?

13 A. Yes, sir.

14 Q. One of them was owned by Philips, is that right?

15 A. Yes, sir.

16 Q. They weren't transferred to ADREA until somewhere close to
17 a year later, correct?

18 A. Correct.

19 Q. Now, you assume, for purposes of your calculation, your
20 royalty calculation, that there was one negotiation going on
21 here, right?

22 THE COURT: Before you pursue further questions on
23 that, because I have a legal question, counsel, which is:

24 Isn't that what he has to do? This is a hypothetical. He has
25 to hypothesize, if ADREA owned these in 2009, what would have

1 been the hypothetical royalty rate, etc. arrived at and
2 negotiated with Barnes & Noble? The fact that they were owned
3 by what later became ADREA, two components at the time, I am
4 not sure legally how that impacts what he is being asked to do.

5 MR. EDERER: What we are trying to do is recreate the
6 situation at the time in 2009, which is a situation where the
7 patents were owned by two different parties. I can't cite to
8 you the case law as I stand here right now.

9 THE COURT: I can't either.

10 MR. EDERER: I am happy to do that because I believe
11 what you're trying to do is recreate the situation that existed
12 at the time.

13 THE COURT: OK. You may be right. I am just not
14 sure. Go ahead with your questions.

15 BY MR. EDERER:

16 Q. So for purposes of your royalty calculation, you assumed
17 that there was one negotiation going on, correct?

18 A. Correct.

19 Q. But at the time, the two Discovery patents, the '851 and
20 '501, were owned by Discovery, and the Philips patent was the
21 '703, correct?

22 A. Correct.

23 Q. Was Philips even involved in the negotiations that were
24 going on with respect to the formation of ADREA at that time?

25 A. They were with respect to the formation of ADREA. I

1 understand there were discussions in late 2009 between all
2 three parties about the formation of ADREA. I think Discovery
3 and Sony were further along, but Philips was in on the
4 discussions before the end of 2009 so they would have been part
5 of the discussions. I don't know how far along they were.

6 Q. Are you aware that there has been testimony at this trial,
7 sir, that Philips was not introduced as a party to the
8 negotiations until after 2009?

9 A. I don't know that. I'm sorry. I don't know that, sir.

10 Q. Isn't it the case, Professor Magee, that you testified at
11 your deposition in this action that if you were talking about
12 two negotiations, it would have been a different story? Do you
13 recall that?

14 A. I remember you asking me those questions, and I remember
15 not having knowledge of how this would work either legally or
16 practically, whether it would be a single negotiation or two
17 separate ones. And so if I remember, I sort of punted on that.
18 I didn't know the answer.

19 Q. If there were two separate negotiations and the total rate
20 would be 50 cents, then somehow there would have to be a
21 division of that 50 cents between the one negotiation and the
22 other negotiation, right?

23 A. If it were -- I don't know. Now we are off into, I think,
24 a hypothetical that I don't know the answer to either legally
25 or practically.

1 Q. It's not hypothetical. I think what you did was
2 hypothetical. What was true at the time was that these patents
3 were owned by two separate parties, right?

4 A. That's right. They were owned by two separate parties.

5 Q. Let me ask you this. If you're right and in fact what we
6 had here was one negotiation, there were still two parties who
7 owned these patents, right?

8 A. Yes, sir.

9 Q. So if a payment had been made, 50 cent per device payment
10 had been made to these parties pursuant to the rate that you
11 calculated, how would they have divided up that number?

12 A. You asked me that at the deposition and I had no idea.
13 That would be speculation for me to say how they divided up. I
14 don't know how they would divide it up.

15 Q. But you would agree that under the scenario that I just
16 mentioned, that number would have to be divided up somehow
17 because we are talking about two different parties, right?

18 THE COURT: Pardon me, counsel, but I am still failing
19 to see the relevance of this line of questioning. If it were a
20 fair market negotiation, the fact that 20 people own a product
21 or one person owns the product, it does not, it seems to me,
22 enable the owners to get a higher rate.

23 MR. EDERER: That's not what I was suggesting.

24 THE COURT: Then I am missing your point.

25 Q. We are not talking about a single product. We are talking

1 about three patents, two of which were owned by one party and a
2 third by another party so, in effect, we are talking about
3 three products.

4 THE COURT: This goes to your question about his
5 failure to break it down.

6 MR. EDERER: That's correct.

7 THE COURT: Now I understand.

8 Q. Now, is it true, sir, that in your report, you did not do
9 any arithmetical calculation to get to your 50 cent royalty
10 number?

11 THE WITNESS: May I go back to the previous question,
12 your Honor?

13 THE COURT: Yes.

14 THE WITNESS: The follow-up is, I was under the
15 understanding that there was some communication at least, maybe
16 not anything formal, but some communication between Philips and
17 Discovery such that, I think, for that reason I made the
18 assumption that they would be basically having that
19 hypothetical negotiation like any hypothetical would be.
20 That's the assumption behind my work.

21 I'm sorry. Proceed.

22 Q. Now, you referred to the opening offer that was made by
23 Barnes & Noble. What were the other factors that you said you
24 took into account in arriving at a 50 cent rate?

25 A. Well, there are a number of indicators in the record that

1 point to a 50 cent rate. I think I mentioned them already.
2 It's PCT at about \$5.70. There is the Intertrust valuation
3 that was approximately 90 cents. And then there was the offer,
4 of course, of 50 cents. And then there was the Amazon.
5 Amazon, I think, goes more to lump sum and validating the 50
6 cents indirectly. So those other two are numeric, but the
7 whole -- as a damage analyst, what I have to do is, in
8 economics, the relevant thing is the price times the quantity.
9 It's what the total price is going to have to be for a product.
10 Price times quantity. So I went through and tried to examine
11 the reasonableness using various GP factors. GP2 is an
12 important one, the Barnes & Noble licenses. The convoyed sales
13 is a big one. GP6 was just south of a billion dollars of
14 convoyed sales that were done. I go through all of those
15 numbers, numerics to show the reasonableness of the price times
16 the quantity which is what goes on in the hypothetical.

17 THE COURT: For our hypothetical jury, GP is a
18 reference to the Georgia Pacific case that was mentioned
19 earlier.

20 Go ahead.

21 THE WITNESS: I'm sorry, your Honor. I have had
22 students saying, isn't that a lumber company? What does that
23 have to do with patents?

24 THE COURT: These are students from Columbia Law
25 School who have nothing better to do this afternoon.

THE WITNESS: It's Friday afternoon, your Honor.

Q. Professor Magee, did you consider the fact when you were coming up with your 50 cent royalty rate number for one, two or three patents, did you consider the fact that Discovery had not previously been able to license for any royalty, any of the patents in its portfolio including the two patents involved in this case?

A. Yes, sir. I believe that's true. I think they considered selling them, as you know, in late 2008 or early 2009 and then they decided to license them. So they were trying to decide what to do with them to go on with their core business in another way.

Q. Are you saying, sir, that you're not aware of any effort or attempt on the part of Discovery to try to license those patents at any previous time?

A. I think they were having discussions about what to do with the patents and they had these discussions with Sony. They had a dispute with Sony, I think, and eventually came together and settled with a cross license to each other's patents and said, hey, we have a whole bunch of patents here, what are we doing with these things. So I think there were other things in play that may have prevented them from doing that.

Then Discovery eventually said OK in 2010, I believe it was, they decided to finally sue the biggest company in the business for e-books which was Amazon and that was before the

1 formal ratification of the ADREA creation and formation.

2 Q. You mentioned that there was some communication between
3 Sony and Discovery back in 2009 with respect to a possible
4 license, correct?

5 A. I don't recall the history of it but somehow they were
6 going back and forth. I don't recall if it was litigation or
7 just discussions.

8 Q. Did you review any documents with respect to those
9 communications between Sony and Discovery?

10 A. I don't recall. I may have seen them. I don't recall as I
11 sit here right now, no.

12 Q. Were you aware of the fact that Discovery made a proposal
13 to Sony with respect to a royalty rate to be paid by Sony for a
14 license for the Discovery patents?

15 A. I don't recall.

16 Q. Do you know what the royalty rate was?

17 A. I don't recall, sir.

18 Q. Did you inquire of anyone with respect to what royalty rate
19 was proposed by Discovery to Sony in the year 2009, the very
20 same year that the hypothetical negotiation in this case would
21 have taken place?

22 A. No, sir, I don't recall.

23 Q. Any reason why not?

24 A. If it's in my report, I just don't recall, sir. I don't
25 recall why I don't know.

1 Q. You just testified that you were aware that there were
2 discussions going on between Sony and Discovery that initially
3 involved proposals to license the Discovery patents and
4 ultimately they agreed to a cross license, correct?

5 A. That's the extent of my memory, yes, sir. I don't remember
6 a rate.

7 Q. So you don't know prior to the time that they entered that
8 cross license what Discovery proposed to Sony in terms of a
9 royalty rate for a license for the Discovery patent?

10 A. As I sit here right now, I can't recall.

11 Q. Did you ever know?

12 A. I don't recall. I don't remember whether -- I don't
13 remember seeing it but it's possible that I did.

14 Q. Is there anything in your report about that?

15 A. I would have to look through it to see. I don't recall.

16 Q. You mentioned some valuations that were done with respect
17 to the patent portfolios that are at issue in this case,
18 correct?

19 A. Yes, sir.

20 Q. I believe you said there was a valuation in 2009 that you
21 referred to?

22 A. There is an Intertrust valuation, yes, sir.

23 Q. Are you aware, sir, that that document has been excluded
24 from evidence in this case?

25 A. I understand that that's the case so I won't speak to it

1 then.

2 Q. Now that you learned that that document has been excluded,
3 does that change in any way the royalty calculation that you
4 did?

5 A. No, sir. There is a lot of other evidence that I looked at
6 including PCT which is a much higher number.

7 Q. So it's still 50 cents no matter whether it's one, two or
8 three patents, correct?

9 A. Yes, sir.

10 THE COURT: Counsel, I am going to give you just five
11 more minutes.

12 Q. I would like to talk about your lump sum calculation,
13 Professor?

14 A. OK.

15 Q. Now, you mentioned that the lump sum projects out sales to
16 the last expiration date of the three patents at issue,
17 correct?

18 A. Yes, sir.

19 Q. That's 2026?

20 A. Yes, sir.

21 Q. That's the '703 patent, right?

22 A. Correct.

23 Q. So what gets you to your \$7.7 million number is the '703
24 patent, right?

25 A. That's the one that gets you -- well, there is some coming

1 in from the '501 up to the end of 2015 and then there is the

2 '703, that's correct.

3 Q. Just to be clear, the '851 patent has already expired,
4 right?

5 A. Correct.

6 Q. So you're not projecting anything with respect to the '851
7 patent because that expiration date was two years ago, right?

8 A. It was the end of 2012, yes.

9 Q. You just referred to the '501 patent which I believe you
10 said expires in 2015 which is next year, right?

11 A. Yes, sir.

12 Q. So you don't have to do much projection or present
13 valuation in order to get a number for your lump sum with
14 respect to the '501 patent, do you?

15 A. Correct.

16 Q. So what gets you to your \$7.7 million dollar number and
17 your projection of sales is the '703 patent, right?

18 A. Yes, sir.

19 Q. And that's projecting sales for 12 years from 2014, right?

20 A. Correct.

21 Q. Which is what you did, right?

22 A. Yes, sir.

23 Q. And you have held sales flat from 2014 through 2026 with
24 respect to your projection of sales that go to the expiration
25 date of the '703 patent, right?

1 A. That's correct.

2 Q. You did that even though you are well aware that Barnes &
3 Noble was suffering severe downward trends in their sales of
4 the Nook for the last three years, correct?

5 A. Since the end of 2012, yes, sir, there is a downward trend.

6 Q. In fact you held sales flat from 2013 to 2026 when you only
7 had the Barnes & Noble sales figures through that date, right?

8 A. Yes, sir.

9 Q. Then when you found out that there was another 30 percent
10 drop in Barnes & Noble sales in 2014, you lowered your number
11 because you used actual numbers for 2014, right?

12 A. Correct.

13 Q. But you didn't change your projection, you still projected
14 another 12 years of flat sales, right?

15 A. We couldn't change the link because I am required to value
16 it to the end of the patent and the end of the patent didn't
17 change, it was still 2026.

18 Q. But you could have changed your projection in terms of
19 whether sales were going to go up, down or stay flat, right?

20 A. Correct.

21 Q. You didn't make a change with respect to that, did you?

22 A. That's correct.

23 THE COURT: Why not?

24 THE WITNESS: Well, it's real simple, your Honor. I
25 have a supplemental report that counsel has. And what happened

1 was, from the end of 2012 on, Barnes & Noble stopped bringing
2 out any new products or anything associated with the old Nooks.
3 They were basically phasing that one out and they were moving
4 to a new Nook and they had just brought out a new Galaxy Nook
5 with Samsung which the expectation, it's going to be enormously
6 successful.

7 Samsung has \$216 billion in annual sales. They are
8 one of the most successful consumer electronics firms in the
9 world and there are expectations that that's going to help the
10 Nook. So that projection would give you a big increase. The
11 trend, as counsel correctly points out, is down for the last
12 two years, so I thought it was fair to go flat.

13 Q. What Samsung projection are you talking about?

14 A. The discussions about optimism, I think, around Barnes &
15 Noble about the new product is quite optimistic. It was
16 released last month so there is a lot of publicity and fanfare
17 in the press about the new Galaxy Nook.

18 Q. Let me ask you another question about that \$7.7 million
19 lump sum number. And you have already indicated how you get
20 there is by extending out sales through 2026 which is the
21 expiration date of the '703 patent, right?

22 A. Yes, sir.

23 Q. Now, if the '703 patent is found to be not infringed or
24 invalid in this case, that lump sum number comes way down,
25 right?

1 A. Yes, sir.

2 Q. You know the terms of the Amazon agreement, of course,
3 right?

4 A. Most of them, I think. We will see.

5 Q. You know there is a \$10 million payment with respect to the
6 ability to use the Discovery patents, correct?

7 A. Correct.

8 Q. Including the two Discovery patents that are at issue in
9 this case, right?

10 A. Correct.

11 Q. Then this \$2.5 million number that relates to the Philips
12 and Sony portfolios, right?

13 A. Everything is correct except the '851 is here as well. The
14 other patent is not exactly the same one that Amazon and the
15 one in the hypothetical are slightly different. The '501 is a
16 related patent by divisional patent. That was the '691.

17 Q. The fact of the matter is that the license in the Amazon
18 case was for the full portfolio of patents?

19 A. Ultimately, it was, but the two patents that sort of
20 brought the parties to the table for a settlement and they
21 would have gone to trial had they not settled were just these
22 two patents.

23 Q. The two patents that are at issue in this case that were
24 Discovery patents at one time were licensed as part of the
25 Amazon agreement, correct?

1 A. Correct.

2 Q. In fact, that's the only revenue generating agreement in
3 history that included a license with respect to any of the
4 patents in suit in this case, right?

5 A. That's correct.

6 Q. With respect to the \$2.5 million payment that was made with
7 respect to the Philips and the Sony portfolios, those
8 portfolios included the '703 patent which was then a Philips
9 patent, correct?

10 A. Correct.

11 Q. So \$2.5 million is the most that you could possibly
12 calculate from the Amazon agreement in terms of the value of
13 the '703 patent, correct?

14 A. OK. Well, that's what was paid for there. The question is
15 what is the value to Barnes & Noble of that patent which can be
16 quite different from what is the value to Amazon of that
17 patent.

18 Q. Are you saying Amazon is not practicing that patent?

19 A. No. I am saying, I haven't evaluated the value that Amazon
20 gets from the patent, the value that Barnes & Noble would get
21 is quite considerable.

22 Q. You're saying that Barnes & Noble would have a value for
23 the '703 patent that's three times the maximum value that
24 Amazon could have gotten for the '703 patent, correct? 7.7
25 million is the value you ascribed to that patent for Barnes &

1 Noble and 2.5 million is the most that that patent could have
2 been worth to Amazon, right?

3 A. I am not following your math. I understand you're trying
4 to somehow compare the two and a half with the ten and then
5 arbitrage somehow the '703 relative to the other two.

6 Q. I am comparing the two and a half to the 7.7. You
7 testified earlier that what gets you to \$7.7 million from your
8 lump sum payment is the '703 patent because that's the only
9 thing that gets you from 2015 to 2026, right?

10 A. Correct.

11 Q. So it's 7.7 million is what that patent is worth to Barnes
12 & Noble. And the most that it could have been worth to Amazon
13 was 2.5 million, right?

14 A. I would have to look at that. On your arbitrage argument I
15 would have to think through it.

16 THE COURT: Counsel, I am going to have to cut you
17 off.

18 MR. EDERER: Thank you, your Honor.

19 THE COURT: We will give plaintiff's counsel five
20 minutes if you want.

21 EXAMINATION

22 BY MR. COX:

23 Q. Hello, Professor Magee. How are you doing?

24 A. Fine.

25 Q. I want to ask you a question about the Amazon agreement.

1 A. OK, sir.

2 Q. The Amazon litigation that the Amazon agreement ended was
3 started by Discovery, correct?

4 A. Correct.

5 Q. Not started by ADREA?

6 A. That's my understanding.

7 Q. During the course of the litigation the patents were
8 transferred to ADREA, correct?

9 A. Correct.

10 Q. You mentioned earlier that the Amazon agreement involves a
11 cross license from Amazon, correct?

12 A. Correct.

13 Q. And the party that that cross license goes to is actually
14 Discovery, correct?

15 A. That would be correct. I am not clear because ADREA
16 settled it, but I am not sure whether they settled it for
17 Discovery or whether they got some part of it. I have no idea.
18 Let me think. Since there were Philips patents there, and Sony
19 patents and Discovery patents there, in the agreement, I can't
20 say specifically, counselor. Maybe you can help me with that.

21 Q. I will come back to it in just a second.

22 While we do that, the other thing I wanted to ask you
23 about was the 2012 offer that you were talking about?

24 A. Yes.

25 Q. From ADREA to Barnes & Noble?

1 A. Yes, sir.

2 Q. That offer, there is some talk about there was a offer for
3 50 cents, a 50 cent royalty rate, is that correct?

4 A. Correct.

5 Q. That offer was a 50 cent royalty rate per e-reader device,
6 correct?

7 A. Correct.

8 Q. But it also included an additional 50 cent royalty rate,
9 correct?

10 A. Are you talking about for the apps?

11 Q. For the software?

12 A. For the software and apps, yes, sir.

13 Q. Specifically, it included a 50 cent royalty rate for the
14 Barnes & Noble branded software, correct?

15 A. Correct.

16 Q. That's different from your 50 cent with the volume based
17 discount of 25 percent estimated rate for the hypothetical
18 negotiation, correct?

19 A. Right, just for the e-readers.

20 Q. The 2012 ADREA offer also involved a worldwide nonexclusive
21 license to the ADREA patents, correct?

22 A. That's correct.

23 Q. Does the hypothetical negotiation result in a worldwide
24 license?

25 A. No, sir. It would be US only.

1 Q. That's different?

2 A. Yes.

3 Q. I want to ask you a question about the growth rate for your
4 lump sum analysis.

5 A. Yes, sir.

6 Q. You applied zero percent growth rate going forward,
7 correct?

8 A. Yes.

9 Q. Can you just describe to the judge some of the reasons that
10 you use a zero percent growth rate?

11 A. I think --

12 THE COURT: I thought he already did. It was the
13 balancing of the declining actual sales versus the impetus
14 provided by the Samsung investment and new product, yes?

15 THE WITNESS: Yes, sir.

16 MR. COX: Thank you, your Honor.

17 THE COURT: Very good. You may step down. Thank you
18 so much.

19 (Witness excused)

20 THE COURT: All right. Here is where we are going to
21 go for the next few hours. I am going to spend about 15
22 minutes with my class. They are going to tell me who was the
23 cutest lawyer, things like that, so I am going to ask everyone
24 in the courtroom to step outside except the class so I can talk
25 with them.

1 Before you do, I then have two short matters which
2 combined will take another 15 minutes. So you're excused for a
3 half hour. Then come on back and we will go through the other
4 two witnesses.

5 I will also ask anyone in the courtroom to step
6 outside as well but you can come back in 15 minutes.

7 (Recess)

8 (Continued on next page)

1 THE COURT: I'm sorry that took a little bit longer
2 than I thought. Let us continue. I think the next expert that
3 I would like to hear from is Mr. Wang.

4 MR. CABRAL: Your Honor, we were able to discuss with
5 the other side, and copying is no longer an issue. The
6 plaintiff has agreed not to introduce evidence of copying.
7 That is one less factor to talk about.

8 THE COURT: Great.

9 XIN WANG,

10 called as a witness by the Court,

11 having been duly sworn, testified as follows:

12 THE CLERK: State your name and spell it slowly for
13 the record.

14 MR. EDERER: Xin Wang, X-I-N W-A-N-G.

15 THE COURT: Mr. Wang, tell us briefly about your
16 background.

17 THE WITNESS: I have a Ph.D in applied mathematics. I
18 was adjunct faculty at USC for about 15 years. I also joined
19 Xerox to work on digital rights management, technologies, which
20 is related to protecting electronic books relevant to this
21 case. Now I'm with Huawei USA, the biggest telecom
22 manufacturing company in the world.

23 THE COURT: Were you retained by ADREA to be an expert
24 in this case?

25 THE WITNESS: Yes.

1 THE COURT: How much do you charge?

2 THE WITNESS: Hourly I charge 375.

3 THE COURT: Approximately, to date, roughly how much
4 of a bill have you run up?

5 THE WITNESS: I don't know exactly the number, but
6 probably about 30K.

7 THE COURT: All right, counsel.

8 BY MR. SHARIFAHMADIAN:

9 Q. Good afternoon, Dr. Wang. As the judge said to you, you
10 provided an opinion with respect to the validity issues in this
11 case, correct?

12 A. Yes.

13 Q. As part of that, you considered issues of obviousness?

14 A. Yes.

15 Q. Part of what you considered are called secondary factors of
16 nonobviousness?

17 A. Yes.

18 Q. You went through a number of factors, and we will take them
19 one by one. Before we do, you understand that in order for
20 these factors to be relevant to the obviousness analysis, there
21 must be a nexus between the factor you are considering and the
22 claimed invention, right?

23 A. Yes.

24 Q. The first one you have in your report is commercial
25 success, correct?

1 A. That's right.

2 Q. What you say in your report is, "I understand that
3 Professor Stephen Magee has prepared an expert report on the
4 issue of commercial success," right?

5 A. Yes.

6 Q. You yourself didn't prepare a report on that issue?

7 A. No.

8 Q. You haven't provided an opinion on that issue?

9 A. I don't have an opinion.

10 Q. You also haven't seen Professor Magee's opinion on this
11 issue, correct?

12 A. I did not.

13 Q. So you don't know what factors --

14 A. No, I did not see his report.

15 Q. That's right, you did not see his report. It goes to say
16 that you haven't seen what factors he considered in reaching
17 that conclusion?

18 A. No, I did not see it. I simply considered his conclusion
19 as my overall nonobviousness analysis.

20 Q. What do you understand that conclusion to be?

21 A. The conclusion is the commercial success of Nook product
22 and also Amazon Kindle's product were partially due to their
23 use of the patent technology.

24 Q. By necessity, for Professor Magee to have reached that
25 conclusion, he must have also concluded that the Amazon Kindle

practices the patents-in-suit in this case, correct?

A. Could you say that again?

Q. Professor Magee, in order to have provided an opinion of commercial success, he must have necessarily concluded that the Amazon Kindle practices all of the patents-in-suit in this case, correct?

A. I assume that's the case.

Q. You yourself haven't analyzed whether the Amazon Kindle practices the patents-in-suit?

A. Personally, I did not.

Q. You haven't analyzed whether the Nook practices the patents-in-suit?

A. My purpose on this case was to just respond to the issues raised by Dr. Neuman on the validity aspects of those patents.

Q. You have no basis to evaluate whether Professor Magee's opinion is correct or not?

A. I don't have opinion on that. I just basically considered his conclusion as a part of the evidence.

Q. What expert analysis are you providing with respect to Professor Magee's conclusion of commercial success?

A. I considered he is an economics professor. This is evidence I'm aware of. I considered his conclusion.

THE COURT: Let me ask a broader question. What expertise are you bringing to bear on any issue as opposed to simply reciting what may or may not have been shown by other

1 experts or facts in this case? Where is your expertise being
2 utilized?

3 THE WITNESS: My expertise is on the security and the
4 protection of distributing digital document contents, and
5 especially in the digital rights management area. I have been
6 working on that for over 16 years.

7 THE COURT: Your opinion on that is what?

8 THE WITNESS: Your Honor, on what? I'm not clear.

9 THE COURT: In the area where you are utilizing your
10 expertise as in this case, you said it was on the security
11 part, right?

12 THE WITNESS: Yes.

13 THE COURT: What is your opinion with respect to that
14 in this case?

15 THE WITNESS: Not clear with respect to security.

16 THE COURT: What did you conclude about that issue?

17 THE WITNESS: Your Honor, I guess I'm not clear of the
18 issue you are talking about.

19 THE COURT: If you are not clear on it, I don't know
20 that --

21 THE WITNESS: Are you talking about the commercial
22 success issue?

23 THE COURT: No. I'm talking about any issue. That's
24 why I said I'm broadening this.

25 THE WITNESS: Oh. My conclusion on this case is the

1 three patents in my opinion are valid.

2 THE COURT: Because?

3 THE WITNESS: Because I just looked at the prior art
4 they raised in Neuman's report, I did the validity analysis, I
5 went through a number of aspects.

6 THE COURT: The only aspect where you were bringing
7 your expertise to bear, I thought you just said, was with
8 reference to security.

9 THE WITNESS: Security and the protection of
10 distributing content.

11 THE COURT: Does that apply to all three patents?

12 THE WITNESS: I think yes. For the '851 it's really
13 about secure delivery of content. For '501 it's about the
14 controlled access to the ebook. And the '701 is also about
15 retrieving some of the context information which is related to
16 distributing of the content and how to use it.

17 THE COURT: How does that latter one relate to
18 security?

19 THE WITNESS: My area is security and digital rights
20 management.

21 THE COURT: And, I'm sorry, what?

22 THE WITNESS: Digital rights management.

23 THE COURT: What does that mean?

24 THE WITNESS: It means that you manage the
25 distribution and the use of the digital content in its entire

1 life cycle. It is really about the creation, how to protect it
2 and distribute it, how to protect it in storage, how to control
3 how people access it, and what kind of rights that people have
4 over the digital content in terms of further distributing,
5 lending, selling, also aggregating. All those possible rights
6 that people can have over the digital content. It involves
7 distribution from end to end, from creation to the end
8 consumption.

9 THE COURT: All right, counsel, go ahead.

10 BY MR. SHARIFAHMADIAN:

11 Q. You also provided an opinion with respect to alleged
12 industry praise, industry praise, correct?

13 A. Yes.

14 Q. To be clear, your opinions such as they are with respect to
15 industry praise do not apply to the '703 patent, correct?

16 A. In that report, in my report, I didn't talk about '703.

17 Q. You have no opinion with respect to industry praise of the
18 '703 patent, correct?

19 A. In that report, yes.

20 Q. You mentioned in your report the fact that John Hendricks,
21 one of the named inventors on the '851 and the sole inventor on
22 the '501 patent -- excuse me -- the '851 patent, was awarded
23 the Edison Achievement Award, correct?

24 A. Yes.

25 Q. You rely on that fact?

1 A. Right.

2 Q. You don't in your report explain what the Edison
3 Achievement Award is, though, is that right?

4 A. I know it is for his contribution to the world of
5 innovation.

6 Q. But in your report do you explain what the Edison
7 achievement award is?

8 A. No.

9 Q. Do you explain why he received it?

10 A. I didn't in the report.

11 Q. Do you explain what the criteria are for receiving this
12 award?

13 A. I did not explain.

14 Q. Do you explain that he received this award because of the
15 incremental contributions that are claimed in the '851 patent
16 or the '501 patent?

17 A. I'm aware that he made a lot of contributions, a lot of
18 innovative contributions to the TV industry as well as to the
19 ebook industry. I think the award is for his entire
20 contribution.

21 Q. That's right. He has made contributions to the TV
22 industry, correct?

23 A. Yes.

24 Q. Those contributions are apart from the ebook-related
25 patents that are at issue in this case, correct?

1 A. Correct.

2 Q. Do you understand that industry praise needs to be the
3 industry praise relating to the claimed invention in order to
4 be properly considered as a secondary factor?

5 A. I think the award is about his contribution to all his
6 innovation. I think it includes his innovation in ebooks.

7 Q. What is your basis for that, sir? Excuse me. Let me
8 rephrase that. What is the basis that you provide for that
9 conclusion in your report?

10 A. The basis I have is the award is for his contribution to
11 the work of innovation. He has innovation in both TV and
12 ebooks. I think that includes his contribution in ebooks.

13 Q. If the award was for his innovation in the TV industry, it
14 wouldn't be relevant to the secondary factors, correct?

15 A. I'm not aware that that's the case.

16 Q. You're --

17 A. I'm not aware that that award is purely for his
18 contribution, his innovation in TV.

19 Q. You are also not aware that it isn't?

20 A. I'm aware that it's for his contribution to the award of
21 innovation. I think that includes both.

22 Q. Do you have any specific evidence or do you discuss any
23 specific evidence in your report that he received that award
24 specifically for his contributions or the claimed work in the
25 '851 patent and the '501 patent?

1 A. Again, in my report I did not consider that. He received
2 the award for his contribution, the award of innovation. I
3 will consider that evidence, objective evidence of
4 nonobviousness in this case.

5 Q. You also referred to praise that Barnes & Noble's Lend Me
6 feature received in the press, correct?

7 A. Yes.

8 THE COURT: I'm sorry. Does someone have a copy of
9 Dr. Wang's report?

10 MR. CABRAL: Yes, your Honor.

11 THE COURT: Would you put it in front of him, please.

12 I'm looking at my copy of your report, which is 234
13 pages, dated December 30, 2013. Did you write this report?

14 THE WITNESS: I wrote this report with the assistance
15 of attorneys.

16 THE COURT: Who were the attorneys who assisted you in
17 writing this report?

18 THE WITNESS: Colin and Michael.

19 THE COURT: I'm sorry?

20 THE WITNESS: Colin and Michael.

21 MR. BAUER: Your Honor, he is referring to Mr. Cabral
22 and Michael Miller.

23 THE WITNESS: Michael Miller. Sorry.

24 THE COURT: Who prepared the first draft of this
25 report?

THE WITNESS: I think I looked at Neuman's report. I have some opinions on them, I communicate my opinions with them, and then come up with --

(Continued on next page)

1 THE COURT: Dr. Wang, I will be blunt and I want you
2 to answer this, of course, totally truthfully.

3 This report has all the earmarks to me of something
4 that was primarily written by a lawyer.

5 THE WITNESS: Yes.

6 THE COURT: Is that true?

7 THE WITNESS: Yes. A lot of legal languages.

8 THE COURT: So let me ask plaintiff's counsel, should
9 I strike this report or strike his testimony because it's
10 really counsel's report?

11 He seems to have, from his own testimony here today,
12 very limited expertise. Most of what he is presenting both in
13 his testimony and in his report is a regurgitation of what was
14 concluded here by others or by counsel. And it has, to my,
15 perhaps, totally unfair eye, all the earmarks of counsel trying
16 to pretend to be experts and placing his signature on their
17 product.

18 MR. CABRAL: Short of becoming a witness here --

19 THE COURT: You can become a witness for these
20 purposes and you better.

21 MR. CABRAL: Dr. Wang was substantively involved in
22 drafting this report. With regard to the distinction I see
23 between the secondary considerations piece which is the focus
24 of today's hearing and the remainder of the opinions which
25 relate to the technical analysis of prior art relating to

1 computer software and DRM technologies which Dr. Wang is one of
2 the most qualified people in the world to deal with those
3 issues.

4 Now, when you're talking about the Hendricks patents
5 themselves, those relate to digital rights management issues,
6 distribution of electronic content e-books and Dr. Wang has
7 extensive experience in that.

8 THE COURT: I am not questioning his experience on
9 that although, of course, that is not being challenged. He
10 seems to have, from what I have heard so far, essentially zilch
11 experience on the things that are being challenged, but even
12 that is not what I am asking about right now. What I am asking
13 about is, you can be Einstein but that doesn't mean that if you
14 signed the name Einstein to a report that is really prepared by
15 someone else, that that can be foisted off on the Court.

16 MR. CABRAL: I think the reality here is that it was a
17 substantial undertaking given the amount of the art, so we did
18 assist Dr. Wang with preparing his draft but he was
19 substantively involved -- and I can show the Court -- in
20 exchanging drafts, comments, revisions. We met several times
21 prior to the exchange of the report. We exchanged numerous
22 drafts. We discussed it at length before it was submitted. I
23 can represent that to the Court.

24 I think with regard to the secondary considerations
25 aspect of the opinion, I think it was evidence considered --

1 THE COURT: What you are telling me, it sounds like --
2 and, again, you correct me if I am wrong -- you, counsel,
3 prepared the report, showed it to him and he made some comments
4 and you adjusted it to reflect his comments, but it was still
5 essentially your product. Am I wrong on that?

6 MR. CABRAL: No, your Honor. What you're missing is,
7 I think, is the critical opening step which is being able to
8 discuss the prior art in the first place, getting his opinions
9 and trying to put that down on paper. Like I said, this was a
10 substantial undertaking given the length of Dr. Wang's report,
11 but I think the critical aspect was meeting and getting his
12 opinions, understanding what those were and then trying to put
13 them down on a paper format that was appropriate to submit
14 under Rule 26.

15 THE COURT: So when you got to the point, for example,
16 there is a whole section here that goes from page 7 to page 15,
17 and then actually entitled "Applicable Law." Then there is a
18 section that goes from page 15 through 18 on rules of claim
19 construction. And then there is a little section on page 18
20 about what is meant by a person of ordinary skill in the art.
21 That was all you, right?

22 MR. CABRAL: The legal section, certainly.

23 THE COURT: So you don't expect that I would allow him
24 to testify to any of that, do you?

25 MR. CABRAL: Regarding the actual state of the law,

1 no, your Honor.

2 THE COURT: Or regarding anything as contained in the
3 portion of the report where he contributed nothing?

4 MR. CABRAL: There are certain aspects of the law,
5 including your Honor's claim constructions.

6 THE COURT: That are necessary background. That's a
7 different subject that may have to be presented by the Court to
8 the jury or some other fashion.

9 Then leaping ahead to the portion of the report that
10 is, I guess, pages 228 through 233, commercial success, etc.,
11 does any of that involve any of his expertise?

12 MR. CABRAL: Your Honor, I think it depends on how you
13 look at this issue. If the Court is of the opinion that
14 secondary considerations must be considered to form an opinion
15 on obviousness, then I think that information is essential as
16 part of the analysis and to be included in the report.
17 However, you are right, in a sense that, as you get into issues
18 of commercial success, for example --

19 THE COURT: I don't understand what you just said.
20 Forgive me. If a witness knows about one aspect of something
21 that's necessary for the jury to draw a conclusion about
22 obviousness, but doesn't know about some other aspect, and he
23 is testifying as an expert, he can testify about what he knows
24 and brings his expertise to bear, someone else can testify
25 about or it can be documentary evidence or lay evidence that

relates to the other part and the jury can then be instructed that if they want to find obviousness they have to find both or if they want to find nonobviousness in this case they have to consider both. I don't see what would allow an expert to get up on the stand and say, I'm going to offer an opinion about obviousness, although I only know about one part of it.

MR. CABRAL: One way to potentially resolve this, your Honor, is a lot of this evidence will go into the record anyway.

THE COURT: I agree with that totally. That, I think, is the point I am making.

MR. CABRAL: So long as Dr. Wang is able to testify substantively on the issue of obviousness and address that issue --

THE COURT: He can testify on the aspects that relate to obviousness or nonobviousness that he has expertise on.

MR. CABRAL: In that case, I think we would be happy to just submit the evidence into the record as it comes in, in the ordinary course and then make argument in closing statement --

THE COURT: And it could be part of the jury instruction of the things they have to consider.

MR. CABRAL: Absolutely.

THE COURT: Is there any reason to detain him further here today with that limitation?

1 MR. CABRAL: I see no other reason.

2 THE COURT: Anything else you want to raise?

3 MR. SHARIFAHMADIAN: The only thing I would add, your
4 Honor, we do still maintain that there is no nexus between the
5 proposed evidence that plaintiff's counsel suggests they will
6 introduce into evidence and the --

7 THE COURT: If that's true they are not going to get
8 to the jury on that issue and that would be something we would
9 discuss when we have your motions at the conclusion of the
10 evidence.

11 MR. SHARIFAHMADIAN: Right. We would just request and
12 reserve the right to object at the time of the introduction of
13 the evidence.

14 THE COURT: As each item comes in, you will raise your
15 objection and I will receive it or not receive it as the case
16 may be and, believe me, I have been very fully educated on
17 that.

18 MR. CABRAL: Your Honor, a lot of the prior art
19 references, prior art reasons have been dropped from the case,
20 so the report has gotten a lot shorter.

21 THE COURT: Thank you so much, Doctor. You may step
22 down.

23 (Witness excused)

24 THE COURT: Let's call the remaining witness.

25 MR. BAUER: While we are waiting for him to come in,

as Mr. Cabral just indicated, at 2:00 today they told us that they are dropping a number of the prior art references that were the subject of this motion as prior art. They reserve the right to talk about them as background, the technologies are the technology, but that they have agreed that they will not be charting them or arguing that those references are prior art and --

THE COURT: We can put that on the record later because we have the witness here now.

CLIFFORD NEUMAN,

called as a witness by the Court,

having been duly sworn, testified as follows:

THE DEPUTY CLERK: State your name and spell it slowly for the record.

THE WITNESS: Clifford Neuman, C-L-I-F-F-O-R-D, N-E-U-M-A-N.

THE COURT: Mr. Neuman, do you want to just briefly tell us your background.

THE WITNESS: Yes, your Honor.

I am a professor at the University of Southern California.

THE COURT: So you're here because you prefer the weather here?

THE WITNESS: Actually, it has been pretty hot out in California recently.

1 I hold a Ph.D. in computer science from the University
2 of Washington, a master's also in computer science from the
3 University of Washington, and a bachelor's degree in computer
4 science from MIT.

5 I have been a researcher in distributed systems and
6 computer security since about 1985. And I have done quite a
7 bit of research in computer security, electronic commerce and
8 distributed systems.

9 THE COURT: You have been retained by Barnes & Noble
10 in connection with this case?

11 THE WITNESS: I have, your Honor.

12 THE COURT: How much are you charging?

13 THE WITNESS: I am being paid \$600 an hour, plus
14 reasonable expenses.

15 THE COURT: Roughly, how much of a bill have you run
16 up so far?

17 THE WITNESS: I haven't tallied but I believe it is
18 perhaps close to, maybe a little bit more, maybe a little bit
19 less than \$100,000.

20 THE COURT: Go ahead, counsel.

21 MR. BAUER: Your Honor, I will submit, there is JUST
22 one issue that I am going to skip now. We had asked that he
23 not be allowed to talk on the ultimate conclusion of
24 obviousness because of secondary considerations. I just spoke
25 to Mr. Berta, the same issue that was with Dr. Wang, so we can

1 pass on that.

2 THE COURT: Very good.

3 MR. BAUER: He will talk about the technology
4 primarily at trial, but not those things -- the references
5 removed -- Kraftsow, Morgan, Nachinson, and Crisp, so I won't
6 be addressing those today.

7 EXAMINATION

8 BY MR. BAUER:

9 Q. Mr. Neuman, in your report you provided an opinion on the
10 Saigh reference, by Saigh, I think we have all agreed that
11 S-A-I-G-H we are pronouncing Saigh here?

12 A. That is my understanding of how to pronounce it and, yes, I
13 did provide an opinion on that reference.

14 Q. You provided an opinion that the Saigh reference
15 anticipated the asserted claims, correct?

16 A. Yes, I did.

17 Q. If you could look at your expert report, your expert
18 report, you discuss legal principles beginning at page 6 of
19 paragraph 22?

20 A. Yes, I do see that section starting at 6.

21 Q. Then it goes on for page after page -- page 6, page 7, page
22 8, page 9, page 10 -- a lot of discussion about the law. Who
23 wrote that?

24 A. That section on the law was written primarily by the
25 attorneys.

1 Q. Your understanding about the law of anticipation and
2 obviousness are understandings that counsel gave to you,
3 correct?

4 A. My understanding is based on what has been built up over
5 several cases not just with this counsel, but in particular
6 what is recited here is based on what I was told by counsel.

7 Q. Let's take a look at your discussion on Saigh and that
8 begins on page 101, paragraph 391.

9 THE COURT: On the theory that after a hundred pages
10 of other stuff, one had to breathe a "Saigh" of relief.

11 A. I am at paragraph 390.

12 Q. Paragraph 391, the heading on that section is "The Saigh
13 Publication Anticipates the Asserted Claims," right?

14 A. That is the heading, that is correct.

15 Q. In fact, there's two Saigh references to the patent
16 application and an issue patent, correct?

17 A. That is correct.

18 Q. You discuss both in your report but in separate sections?

19 A. I believe that I discussed them both in my report here and
20 relying on the publication.

21 Q. In fact, other than the claims, those two disclosures were
22 identical?

23 A. My understanding is that they are substantially similar and
24 that the claims are where the primary differences exist.

25 THE COURT: I guess the question that I had with

1 respect to the Saigh portion of your report, the heading itself
2 says "The Saigh Publication Anticipates the Asserted Claims of
3 the '501 patent," but that is a different issue from
4 obviousness, right? One can anticipate something without being
5 obvious, that the invention of the wheel anticipates the
6 invention of the cart but it's not obvious that because
7 everyone knew how to make a wheel, they also knew how to make a
8 cart. So I am wondering whether this is really about
9 obviousness?

10 THE WITNESS: My understanding is that anticipation
11 requires that you meet all the elements. The example you gave
12 with the cart and the wheel, I'm not sure that I completely
13 understand. I do agree with you that the wheel does not
14 anticipate --

15 THE COURT: Maybe I am putting the cart before the
16 wheel.

17 Go ahead.

18 THE WITNESS: I am trying to understand precisely what
19 your question is. I think I understand where you're going, but
20 if a particular item is anticipated, that would be an argument
21 that in light of that particular anticipatory reference it is
22 obvious, but I believe they are different analyses that you
23 perform.

24 THE COURT: That's really my point.

25 So I guess my question is -- well, maybe I will leave

1 it to counsel.

2 Go ahead, counsel.

3 MR. BAUER: Your Honor, you are right.

4 Q. The only discussion in your report is on the issue of
5 anticipation with respect to Saigh, correct?

6 A. And my report only discusses anticipation, that is
7 correct -- or the only opinion I have presented is that of
8 anticipation.

9 MR. BAUER: Your Honor, that's what brings us here
10 today. We have been told he intends to testify on the issue of
11 obviousness at trial.

12 THE COURT: I think what I hear him saying is that
13 from anticipation a reasonable juror could, with respect to
14 this particular element, draw an inference of obviousness. The
15 fact that he is not testifying about obviousness on this
16 particular reference doesn't mean that he is then supplying
17 expertise that would enable a jury as part of their obviousness
18 analysis to draw an inference of obviousness.

19 That's what I sense was what you were saying.

20 THE WITNESS: That's precisely what I meant, your
21 Honor.

22 MR. BAUER: Our understanding was that he was going to
23 take the stand and say that there are elements missing and that
24 it would have been obvious to include those elements.

25 THE COURT: He is not saying that, at least I am not

1 seeing him say that in his report about Saigh. Let's go on. I
2 see your point. We can argue more about this after we have
3 heard from the witness.

4 Maybe we should talk about the MacPhail reference.

5 Let me ask the witness: What is it that you say
6 renders the '501 patent obvious from the MacPhail reference?

7 THE WITNESS: So with respect to the MacPhail
8 reference, the main issue that we are looking at in '501 has to
9 do with the time months, the setting of the times and the like.

10 If we look at the MacPhail reference, it talks about
11 the setting of times. Now, it has a couple of different times
12 that are set there but in fact --

13 THE COURT: That's in the background section?

14 THE WITNESS: In the background section of my report
15 on MacPhail.

16 THE COURT: Background section of the patent?

17 THE WITNESS: The background section of MacPhail is
18 addressing the kinds of systems on which there was a need to
19 use these kinds of techniques. So when we are talking about
20 the background section, we are looking at the use of or the
21 need to do this on, for example, a personal computer as well as
22 distributed systems and other kinds of things to which this can
23 be applied. So the part that comes from the background section
24 is the motivation to utilize this on a single computer system,
25 which is implementing the viewer, rather than implementing the

1 components on different pieces.

2 THE COURT: Is there anything in the MacPhail patent
3 that you're relying on for your conclusion of obviousness with
4 respect to the '501 patent other than maybe a passing statement
5 or two in the background section?

6 THE WITNESS: There is that component with respect to
7 one element. There is with respect to another element having
8 to do with different embodiments, there is the suggestion that
9 the two different times that are maintained will normally be
10 the same. And that's another item that comes into that
11 obviousness argument.

12 THE COURT: All right.

13 BY MR. BAUER:

14 Q. Let's focus on the exact paragraph we are talking about,
15 paragraph 445.

16 Sir, you just told the judge about the motivation to
17 combine that background with what is shown in MacPhail. You
18 don't describe that motivation to combine anywhere in your
19 report, do you?

20 A. I don't recall if I specifically used those words. But I
21 do in my report talk about things external to the MacPhail
22 patent but what one of ordinary skill in the art understands in
23 terms of the ability to run multiple servers or multiple
24 components on a single computer system.

25 Q. Let's look at 445. You say it would have been obvious to a

1 person of skill to implement the method of managing the
2 retention and deletion of documents disclosed in MacPhail on a
3 single computer?

4 A. Yes.

5 Q. That method is not described in MacPhail itself, correct,
6 you need to bring this other technology in?

7 A. Well, it's not so much other technology. You need to bring
8 this particular way of implementing it in. That is, it doesn't
9 state that they run on a single computer, but one of ordinary
10 skill in the art understands, when you look at servers in that
11 time of the writing of this and other computer systems, that
12 that could be done.

13 Q. None of that is in this paragraph either, is it?

14 A. That may not be in this paragraph, it may be in some other
15 paragraphs.

16 Q. You prepared to come in here today, right, you knew this
17 was going to be the heart of the issue?

18 A. I did prepare to come in here, yes.

19 Q. Paragraph 445 is your entire opinion on the issue of
20 obviousness with respect to this element not being in MacPhail,
21 isn't that correct?

22 A. I will need to look specifically at this particular
23 section. In fact, what you quoted to me from that one
24 paragraph was only part of that one paragraph. Even with this
25 I have the discussion: Combining the functionalities of

1 storing and viewing electronic documents, which in the
2 embodiment disclosed in the MacPhail patent is distributed into
3 one device, would entail no more than application of known
4 techniques by a person of ordinary skill in the art to obtain
5 predictable results.

6 Q. Other than that one conclusory statement, you provide no
7 evidence to support that statement, correct?

8 A. I also state in this paragraph immediately following that,
9 in fact, it would have been easier for the developer of the
10 system disclosed in the MacPhail patent to implement or access
11 restriction technique on a single device had she not been
12 trying to solve a broader problem of managing information in a
13 distributed system.

14 Q. You provided, other than those conclusory statements, you
15 provided no evidence to support it. You didn't point to any
16 prior art that would have done it, or to support your
17 contention that these were known techniques providing
18 predictable results, did you?

19 A. Within the body of the report, I do not believe that I
20 pointed to additional references.

21 Q. In fact, when you talk about "she would have been able to
22 do it had she not been trying to solve a broader problem," in
23 fact, she wasn't trying to solve this problem in MacPhail, was
24 she?

25 A. She wasn't trying to solve?

1 Q. The problem that you're saying anybody could have easily
2 done. She was looking at a different problem.

3 A. She was looking at solving a particular problem and
4 described the solution in the context of a distributed system.
5 The problem that she was solving is the same problem that
6 exists also on an individual system.

7 Q. She didn't say that in her patent. This is not in your
8 report, right? This is what you're adding now to fill it out?

9 A. No, sir. In the introductory material in the patent, and
10 we see this cited here at 1-15-20, and that is a citation that
11 is in this paragraph, it talks about the state of the systems
12 including a simple personal computer where this kind of problem
13 existed. The particular embodiment that she described in this
14 did speak about a more complex environment, but that doesn't
15 get to the point that the core concepts that were the
16 contributions of the MacPhail patent couldn't be implemented in
17 these other environments that she had indicated were
18 preexisting environments. And I provide the support here that
19 one of ordinary skill in the art, and we went through those
20 cites.

21 MR. BAUER: Your Honor, our contentions are that the
22 expert report was nothing more than his conclusion.

23 THE COURT: I understand. He is making his argument
24 to give a broader reading of this paragraph than you are, which
25 I may or may not agree, but both sides are in total agreement

1 of course that to the extent he is permitted to testify, he is
2 bound by the four corners of the report, he can't go beyond the
3 report. But that's not the question before me. The question
4 before me is whether he can testify about this particular
5 aspect based on MacPhail, etc. So maybe we can move on.

6 MR. BAUER: That's right.

7 BY MR. BAUER:

8 Q. The last ones that I just want to talk about are Munyan and
9 Bolas with respect to the '703 patent.

10 At paragraph 277, you discuss the Munyan patent, at
11 page 71 of your report.

12 A. I am reading that now.

13 MR. BAUER: I understand they are not going to do
14 Munyan and Bolas in the same claims.

15 Q. With respect to claim 13 of the '703 patent, you talk about
16 the Munyan reference, the Munyan patent with respect to the
17 preamble. You see how you did the report? You took it step by
18 step. So paragraphs 276 to 281 relate to the preamble, and
19 then 282 relates to the first element enabling?

20 A. Yes, that's how I did that.

21 Q. With respect to the Munyan patent, paragraph 277, you say
22 it renders obvious the method. You're talking about the
23 preamble, right?

24 MR. BAUER: One second, your Honor.

25 Q. So what I have been told is what we are talking about with

you with Munyan is with respect to claims 1, 2, and 3. That's at page 75, paragraphs 292 and 293.

A. I am on that page.

Q. The one paragraph you have in here about what is missing, paragraph 293, it says: To the extent that it might be determined, that claim 1 is not anticipated for failing to disclose the consumer appliance element, that claim 2 is not anticipated for failing to disclose the consumer appliance element, and claim 13 is not anticipated for failing to disclose service via the Internet and server initiating access.

You then have the conclusion: "Those of ordinary skill in the art would have found it obvious to modify the electronic book described in the Munyan patent so that these limitations were included."

A. And that is what I state.

MR. BAUER: I was only going to talk about the one claim that I had. Now I have been switched around.

I am not going to take up the Court's time. I think the arguments have been made.

THE COURT: I think they are set out in your papers.

Any questions from defense counsel?

MR. BERTA: Your Honor, very briefly. I just want to address two and a half issues.

We do have an issue with respect to Saigh and obviousness. So if we could lay the foundation for that.

1 THE COURT: Go ahead.

2 EXAMINATION

3 BY MR. BERTA:

4 Q. So it's correct that you looked at the Saigh reference in
5 your report. As counsel noted, and as the judge also noted,
6 you offered an opinion that Saigh anticipates the asserted
7 claims, right?

8 A. That is correct.

9 Q. Anticipation, in your view, means that each element listed
10 in that patent claim can also be found expressly or inherently
11 in that reference, is that right?

12 A. Yes, that is also correct.

13 Q. When you offered that opinion -- is that your opinion
14 still?

15 A. That is still my opinion.

16 Q. Good. When you offered that opinion, you received a
17 response, is that correct, from Dr. Wang?

18 A. Yes. I have read Dr. Wang's report.

19 Q. Did he agree with you as to whether each of the individual
20 elements in the asserted claims were also reflected in the
21 Saigh reference?

22 A. He certainly disagreed with me on that.

23 Q. In response to seeing his distinctions between what you
24 believe were in Saigh that were also in the patent, did you
25 have a reaction to the distinctions he was drawing between what

1 you said was a disclosure in Saigh and what he thought maybe
2 wasn't actually disclosed in Saigh?

3 A. My reaction in some of the cases were that I outright
4 disagreed with him. For example, he indicated that certain
5 things might not be there. For example, he said that the
6 storing of, as he quoted and as he cited, information, he
7 didn't see where that was a book. But elsewhere, within a
8 paragraph or so, there was information that would lead one to
9 believe that that was a book. So that was one example, and
10 there were various other examples, where he tried to draw
11 distinctions that I believed were insignificant and in fact
12 would not hold merit in terms of his argument that they didn't
13 anticipate.

14 Q. I think what you said was you were of the opinion that
15 Saigh in fact discloses an element that an electronic book is
16 stored to a device. Is it correct that Dr. Wang concluded that
17 actually, with respect to the element at issue, what was stored
18 to the device, what was literally contained within the words of
19 Saigh was that what was stored to the device for the relevant
20 element was information, not books, in that particular
21 situation. Is that roughly correct?

22 A. That is my understanding of that particular element.

23 Q. So to the point, if someone were to decide that storing
24 information to the device was somehow distinct from storing a
25 book to the device such that, literally speaking, it wasn't

1 anticipated -- first, let me ask you, is it your view that that
2 still is anticipation?

3 A. It is still my view it is anticipation.

4 Q. If someone were to decide that information in a book were
5 distinct enough that it wouldn't be found literally within the
6 four corners of Saigh, do you have an opinion as to whether or
7 not information and books are different enough from one another
8 to render Saigh no longer now just obvious, if not anticipated?

9 A. I believe it would be obvious because one understands that
10 what one is interested in with books is the information, and
11 that if we are describing information can be stored, that
12 information can certainly be information from books. I believe
13 it actually was, but to the extent that someone else might not
14 believe it, it would be obvious to use that information from
15 books.

16 Q. In the four corners of your discussion of Saigh --

17 THE COURT: So you don't really understand books.
18 These days books are not used for information at all. You put
19 them up on your bookshelf to impress easily impressionable
20 young people, which is what I think is their sole function.

21 Q. Just to put the point to the Court as to what I think the
22 decision would have to be is, with respect to these
23 distinctions that Wang raised, did you review Wang's report
24 after you received it?

25 A. I did review Wang's report.

1 Q. Did you develop responsive thoughts with respect to this
2 issue of where he was drawing a distinction with something that
3 you thought was disclosed in Saigh?

4 A. I first developed thoughts which actually disagreed with
5 him. And I also developed thoughts that, to the extent that
6 someone might accept his arguments, that it still would have
7 been obvious to what was needed to meet those.

8 Q. You obviously were deposed in this case?

9 A. I was deposed.

10 Q. Were you able to when asked to offer those further thoughts
11 that came to you upon seeing what distinctions he was drawing
12 with respect to the --

13 THE COURT: This is an interesting example of leading
14 questions, but what is the point?

15 MR. BERTA: The point being we agree that what was in
16 that report is anticipation by Saigh. We can't control that
17 Dr. Wang says, well, electronic information and electronic
18 books are somehow different things, but that's going to go to
19 the jury, perhaps, with respect to his opinion. And if the
20 jury thinks a book is not the same word --

21 THE COURT: I understand all of that. I understand
22 totally your argument. I am just wondering why you feel the
23 need to put it through this witness. It's really what one
24 might say an obvious argument.

25 MR. BERTA: I agree with you, but he does bring

1 expertise to bear -- this is just on example -- on why a whole
2 network, for example, is the same thing as a modem.

3 THE COURT: All right.

4 BY MR. BERTA:

5 Q. The last issue with respect to MacPhail -- and this might
6 have been me -- to clarify, is it correct that with respect to
7 MacPhail, besides the two elements that you identified when you
8 were speaking with his Honor, that you believe all the rest of
9 it is disclosed in MacPhail?

10 A. I do believe that the rest of it is disclosed.

11 Q. So there were two elements that you thought arguably were
12 not --

13 THE COURT: I understand your point.

14 MR. BAUER: Just two questions.

15 THE COURT: Go ahead.

16 BY MR. BAUER:

17 Q. Mr. Neuman, you say you didn't form the obviousness
18 opinions until after you saw Dr. Wang's report?

19 A. That is correct.

20 Actually, I believed that they anticipated and thus
21 would have been obvious. But the obviousness opinions, in
22 light of potentially missing elements that Dr. Wang claimed
23 were there, are opinions I didn't form.

24 Q. Just so the record is clear, when you say anticipation,
25 it's your view that if it anticipates, then obvious is really

1 just a subset of it at that point?

2 A. I believe we are in agreement there.

3 Q. If it doesn't anticipate, then you need to go one more step
4 to show why the missing element would have been obvious?

5 A. That is correct.

6 Q. When you formed the opinions on obviousness after Dr. Wang
7 showed it to you, you submitted a supplemental report in this
8 case, didn't you?

9 A. There was a supplemental report that was submitted, but
10 that was two particular issues.

11 Q. You didn't mention any of these obviousness supplemental
12 issues in your supplemental report which was submitted after
13 Dr. Wang's report?

14 A. In that supplemental report, no, I did not mention these
15 issues.

16 Q. In fact, until today, this is the first time we have heard
17 your obviousness arguments?

18 A. I don't know what you have heard, but this is the first
19 time I have specifically presented them to you.

20 Q. The last thing. If we can look at your expert report, page
21 9. This is paragraph 35.

22 A. Yes, I see paragraph 35, which I think starts on page 8.

23 Q. You did understand when you rendered this report that you
24 needed to provide some rationale to support your finding of
25 obviousness, and you listed at least seven different ways to do

1 it?

2 A. I do see, "I understand that at least the following
3 rationales may support a finding of obviousness," and I listed
4 those rationales.

5 Q. And you haven't listed any of those in any expert report
6 you submitted in this case with respect to Saigh?

7 A. I'm sorry. The question?

8 Q. You haven't discussed any of those rationale regarding the
9 obviousness argument you make about Saigh?

10 A. Use of known techniques to improve similar -- applying a
11 known technique to a known device.

12 Q. I am not asking you today what your opinion is. I am
13 asking you to confirm, you have never provided us a written
14 opinion or an expert report correlating any of those factors to
15 the missing elements in Saigh?

16 A. I have not provided any supplemental reports that
17 specifically did that for Saigh.

18 MR. BAUER: Thank you.

19 THE COURT: OK. Thank you so much. You may step
20 down.

21 (Witness excused)

22 THE COURT: So we have two more things to handle. I
23 want to hear oral argument in a minute, and then I also want to
24 go over the preliminary jury charge. I e-mailed that to you
25 about noon, but let me hand you a copy as well.

1 I think there may have been some misunderstanding on
2 your part. When we discussed this on the phone, I indicated
3 that what I had in mind in the way of a preliminary charge was
4 something like one or two pages. What you each provided me in
5 your submissions, along with your regular requests to charge,
6 was something like 15 or 20 pages. A simple error in order of
7 magnitude, but what I want is one or two pages. So I have
8 given you a proposed preliminary instruction that is one page.
9 It actually, to be totally fair, was one and a quarter pages,
10 but I cut the font down slightly. So we will talk about that
11 before we leave today, but you can take a look at it.

12 Now, in terms of oral argument, I am happy to hear
13 argument about anyone and everyone, but I will tell you where
14 my head is at at the moment.

15 I am inclined to admit Mr. Barnes' testimony.

16 I am inclined to admit Mr. Neuman's testimony with
17 some narrowing, but not much.

18 I am inclined to admit Dr. Wang's testimony with
19 considerable narrowing along the lines that I think pretty much
20 there is now consensus on.

21 Where I am having the greatest difficulty is with
22 respect to Dr. Magee. It sounded to me like what he basically
23 did was say, if this had been a negotiation, they would have
24 come up with a lump sum of about seven million bucks, and then
25 from that I derived what the royalty rate would be. And I am

1 wondering whether that's an appropriate methodology consistent
2 with Georgia Pacific case law generally. Now, maybe I am
3 misunderstanding his testimony.

4 So while I am happy to hear argument on anything and
5 everything, I particularly want to hear argument with respect
6 to Magee.

7 So why don't we hear first, therefore, from
8 plaintiff's counsel because it's you who have got to defend the
9 case, so to speak, and then we will hear from defense counsel,
10 and then we will come back to plaintiff's counsel by way of
11 rebuttal. I know that defense counsel is the moving party
12 here, but given what I just said, I think it makes more sense
13 to hear from plaintiff's counsel.

14 MR. CABRAL: Your Honor, I think the Fed Circuit has
15 come down pretty recently in the *Apple v. Motorola* case and
16 said that estimating a reasonable royalty is not an exact
17 science. There can be more than one way to do it.

18 THE COURT: I appreciate that in some ways this is an
19 unusually difficult situation of people estimating the
20 reasonable royalty because there are so few participants in the
21 market, there's so little history, any negotiations. I
22 appreciate all of that, but that doesn't mean anything goes
23 either.

24 MR. CABRAL: I think that this is one of those cases
25 where there is no sort of method to come up with a number.

1 What you have here is evidence that's out there in the record,
2 limited evidence frankly. You don't have a free arm's-length
3 negotiation outside of the context of litigation. All we have
4 is really a couple of surveys and analyses done on the relevant
5 portfolios. You also have the Amazon settlement agreement,
6 which is really the only license I believe to the patent.

7 So it all depends on how you treat the Amazon
8 agreement, and I think the two experts in this case have
9 treated them differently. The Amazon agreement was the focal
10 point of Mr. Barnes' testimony, as you probably are well aware
11 by now, and the issue with that is the Fed Circuit has been
12 very clear that there is a long-standing disapproval of relying
13 on litigation settlement agreements.

14 THE COURT: As the master of cliches, let me throw out
15 one. In the land of the blind, the one-eyed man is king. That
16 was the only licensing agreement we have to work from. So it
17 has to be looked at with great care and caution. I am sure the
18 jury will hear lots of reservations about that. But there is a
19 certain common sense in saying, well, that's the one license
20 out there that is at all in this ballpark, and that's not how
21 Magee goes.

22 MR. CABRAL: He considers the Amazon agreement at
23 length.

24 THE COURT: It corroborates his view not on the
25 royalty rate, but on the lump sum.

1 MR. CABRAL: Yes, if I heard him correctly, he said it
2 was on the lump sum. I think the reason that he gave, at least
3 if I heard him correctly, is that -- this is true independently
4 of what he said today -- the available evidence regarding
5 Amazon's unit sales, in order to convert those opinions or that
6 agreement from a lump sum amount, which is what the Amazon
7 license is, into a per-unit rate, which is what Mr. Barnes
8 does, you have to rely on several things.

9 You have to rely on attorneys' eyes only confidential
10 information that was produced by Amazon litigation that would
11 not have been available to the parties as of the date of the
12 hypothetical negotiation. You have to rely, as Mr. Barnes did,
13 on data from the IDC, which came in 2011. We have issues with
14 how he used that data, obviously, because there was data from
15 2010 and 2012 and 2013, and even 2014 now. But all of that
16 came after the date of the hypothetical negotiation as well.

17 So, in order to use the Amazon agreement, you have to
18 focus on an agreement that came two years after the agreed-upon
19 date of the hypothetical negotiation in a fast-moving market,
20 which I think everybody agrees on. That time difference plus
21 all of the other factors that distinguish the Amazon agreement
22 from the hypothetical negotiation -- assumptions of validity
23 and infringement, the cross-license which involved 6 Amazon
24 patents that were at issue in two different litigations, in
25 Washington and in Delaware -- Mr. Barnes attributes no value to

1 that, but that is another distinguishing factor between the
2 Amazon license and the hypothetical negotiation.

3 You also have the coercive forces that are involved in
4 litigation when you are talking about litigation fees, costs,
5 and risks associated with that, and so forth. So, the Amazon
6 agreement is not a perfect starting point.

7 THE COURT: I totally agree with that. But I come
8 back to the fact that that at least is some guidance, arguably,
9 and you can have competing arguments, as opposed to sort of
10 pulling it out of either thin air or, that's not quite fair,
11 offers that were not accepted, things like that. How can an
12 offer that is not accepted be a basis?

13 MR. CABRAL: Your Honor, the offer was 50 cents per
14 unit. It depends on how you define unit. In that particular
15 term, which has now been admitted into evidence, "unit" was
16 defined as an ereader device and an application, a Nook app.
17 Nook apps, the data shows, they give away for free. It's like
18 15, 20 million units, whatever it is. I don't know what it is.

19 What he said, what Professor Magee said at a high
20 level was that when you take apps into account, the real offer
21 wasn't just 50 cents per unit. The real value of the offer was
22 in the 13 to \$15 million range. That's what they rejected, not
23 the 50 cents. When you take the apps out of the equation --

24 THE COURT: Which he doesn't know. He speculates.

25 MR. CABRAL: He bases that on information in his

1 report. We do have data available to how many apps were
2 released by Barnes & Noble within that relevant time period.

3 THE COURT: Go ahead.

4 MR. CABRAL: He does have data about how many apps
5 would have been there so he can evaluate what that true offer
6 was. You're right in the sense that ADREA didn't know how many
7 apps had been released, because that was Barnes & Noble
8 information. But certainly Barnes & Noble knew what that would
9 cost them at that point. That's what they rejected, the 13 to
10 \$15 million offer, which is really what was put on the table.

11 What you have here is Professor Magee coming back and
12 proposing it is not 50 cents, it is 50 cents with a volume-
13 based discount down to 25. That is also consistent with Barnes
14 & Noble's licensing history, where they do license technology
15 for the Nook device specifically on a per-unit basis, and it is
16 adjusted based on volume. It is consistent with their
17 licensing history. He comes up with a number.

18 Up to date using the 50 cent royalty, the vast
19 majority of the damage, we are at \$6 million if you do 50 cents
20 up to now. That's on a running royalty basis. If you have
21 problems with a lump sum, maybe that is independent of the
22 reasonable royalty opinion, but today that would take us to
23 \$6 million for a 50 cent rate. Once you hit the 20 million
24 units, it would go down to 25, according to Professor Magee's
25 opinion.

1 THE COURT: Let me hear from defense counsel.

2 MR. EDERER: Your Honor, we have two problems with the
3 50 cent number. One is set out in detail in our briefing, and
4 that is the fact that the number is not broken down among the
5 various patents. I can address that issue as well.

6 With respect to the issue that you were just talking
7 about, it is absolutely true, and Mr. Magee admitted this on
8 the stand, he performed no mathematical calculation whatsoever
9 to get to his 50 cent number. He provides no guidance as to
10 how that number was arrived at. All he says is, I looked at a
11 bunch of different things, and that number seemed fair and
12 reasonable to me.

13 What he said was he based it first on the opening
14 offer to Barnes & Noble, which is not, coincidentally, 50
15 cents. By the way, we have heard now a couple of times about
16 why Barnes & Noble rejected that offer. There is absolutely no
17 evidence in this record, and you will hear none in this
18 litigation, as to why Barnes & Noble rejected that offer. That
19 is total conjecture on the part of Professor Magee, number one.

20 Number two, we keep hearing about these apps. The
21 apps were originally accused in addition in this case, and your
22 Honor dismissed the claim with respect to the apps because it
23 wasn't actually being pursued by the plaintiffs. So the apps
24 are not accused and they are not involved in this case anymore.

25 The other part of it is that -- we wanted this out

1 when I was examining Professor Magee -- if you look at it
2 another way, there's 300 patents covered in that offer to
3 license versus 3 in this case. The offer was for a worldwide
4 license versus a U.S.-only license in this case. There is no
5 correlation whatsoever between that offer and Professor Magee's
6 royalty rate number other than the fact that they both were 50
7 cents. He does not actually do any calculation or tie it back.

8 The other document that he refers to and which he
9 relied on very heavily is a document that your Honor has
10 excluded from this case as highly prejudicial. There is a fair
11 amount of argument about that document in our Daubert motion.
12 But Professor Magee conceded today that he is not going to be
13 able to rely on that document.

14 I think when you put that together, the two things
15 that he relied on principally are the offer document and what
16 he called the valuation document, which we I think have
17 demonstrated was not a valuation document at all.

18 Then, with respect to what he failed to take into
19 account, he says he did take into account the Amazon agreement.
20 You heard him talking about that today. But he conceded on the
21 stand today that he didn't use it to come to a number. He just
22 said, well, those numbers were really big, so my number sounds
23 reasonable in relation to the big numbers in the Amazon
24 agreement. That's really all that he is talking about.

25 If you look at his report, he says that he found the

1 Amazon agreement informative but not with respect to the 50
2 cent number or any total lump sum number that he may arrive at.
3 He just says that it supports the notion that you can do a lump
4 sum calculation in a situation like this and that ADREA would
5 have been open to either a running royalty rate or a lump sum,
6 and also that it involves the licensing of all three patents
7 for one single rate.

8 We also heard a little bit about a report called PCT,
9 although he hasn't really described in any detail how that
10 influenced his calculation or lack thereof. The PCT document
11 is a document that well predated the date of the hypothetical
12 negotiation and relates back to agreements and other data that
13 goes back to the beginning of the 2000s and the late 1990s.

14 So, there is just absolutely nothing that Dr. Magee or
15 Professor Magee has presented in his report or in court here
16 today that in any way whatsoever demonstrates or would demon-
17 strate to a jury why or how he got to his 50 cent number.
18 Therefore, we think it would be highly prejudicial to allow him
19 to present that number in that context.

20 Also, by the way, there are other things that we
21 mentioned, we didn't get to today, the things that he fails to
22 take into account. One of them is the \$5 million valuation in
23 ADREA's own financial statements, which we had some testimony
24 on in court here on Wednesday. The fact that these valuations
25 are being reported to the IRS, he didn't take that into

1 account. In fact, he dismissed that in favor of what he called
2 the valuation in the Intertrust document, which has now been
3 excluded.

4 Piecing it all together, there is just no way that he
5 can present to a jury any rational basis for coming to that 50
6 cent number, not to mention that we have a big problem that we
7 address in detail in our motion, the fact that the 50 cent
8 number doesn't change if the jury may find one or two of the
9 patents-in-suit to be not infringed or invalid. Your Honor may
10 recall my soda, gum, and -- what was it? -- chips example.

11 THE COURT: I recall it, but apparently you don't.

12 MR. EDERER: The last thing I will mention is that his
13 reliance on the Amazon agreement, to the extent he was relying
14 on it, got tripped up when he was here today and we pointed out
15 to him that what gets him to that \$7.7 million lump sum number,
16 putting aside all the other problems with his lump sum number,
17 the fact that he is projecting out for 12 years based upon flat
18 sales when the 3 actual years' worth of data that he is relying
19 upon show a sharp drop in sales every single year.

20 As to his reasoning as to the Samsung agreement that
21 Barnes & Noble just entered into as a basis for keeping sales
22 flat, well, before the 2014 numbers were reported by Barnes &
23 Noble, Magee was relying on the 2013 numbers, which was long
24 before the Samsung agreement was announced, and he held sales
25 flat then, too. The only change he made when the 2014 numbers

1 came out is he lowered his number and held sales flat from that
2 point.

3 THE COURT: Before plaintiff's counsel gets up, that
4 was something I meant to ask plaintiff's counsel about a minute
5 ago in addition to various other things. I was surprised, and
6 I asked him twice about this, whether the reason he held sales
7 flat despite the decline in actual sales was the Samsung thing,
8 and he said yes, that was his reasoning.

9 But what evidence is there of any knowledge of that at
10 the time he issued his report? He said it's now just been put
11 on the market a month ago, but his report predates that. He
12 talked about it's been put on with a big splash and all like
13 that, but none of that could have been the basis for his
14 report.

15 Anyway, we will hear from plaintiff's counsel in a
16 minute.

17 MR. EDERER: The point on that, your Honor, is that
18 that information appears only in his supplemental report. He
19 updated his numbers based upon --

20 THE COURT: Even before his supplemental report, your
21 point is he had come to the same conclusion.

22 MR. EDERER: Come to the same conclusion. He was just
23 starting from a higher base and holding sales flat for 12
24 years, and I guess it was 13 years at that point. When the
25 numbers came out from Barnes & Noble for 2014, he realized if

1 he was going to hold sales flat, he was going to have to hold
2 it flat from a lower number. That is the first and only time
3 that we have heard anything about the Samsung agreement. His
4 entire discussion of the Samsung agreement: There was a lot of
5 excitement about it, it was just announced.

6 THE COURT: But you are reminding me he did refer to
7 it as in his supplemental report.

8 MR. EDERER: In his supplemental report he did.

9 THE COURT: OK.

10 MR. EDERER: I was about to also mention the fact that
11 the Amazon agreement got turned around on Professor Magee a
12 little bit when I questioned him about what gets him to that
13 \$7.7 million lump sum number is the fact that the '703 patent
14 is the only one that goes beyond 2013 in terms of an expiration
15 date. If the '703 patent is found to be not infringed or
16 invalid, there goes the \$7.7 million number.

17 On top of that, the most that you could possibly
18 attribute to the '703 patent from the Amazon agreement is
19 2.5 million because it is within that Philips/Sony portion of
20 the license as opposed to the Discovery portion of the license,
21 which was for \$10 million. What he is trying to do is put the
22 biggest number he can in front of the jury, the \$7.7 million
23 number, which he only gets to by reference to the '703 patent.

24 The Amazon agreement suggests that at most the value
25 of that particular patent, which is only one of many patents

1 that is being licensed in the Amazon agreement, could possibly
2 be \$2.5 million, yet he is trying to put a number that is three
3 times that amount in front of the jury. We think that would be
4 highly prejudicial along with everything else.

5 THE COURT: Thank you very much. Let me here hear
6 from plaintiff.

7 MR. CABRAL: Your Honor, a lot of what I heard just
8 now was arguments from cross-examination and the weight of the
9 evidence, so I want to address all of those. There are certain
10 issues that were brought up that do actually relate to
11 admissibility. Not all of them, obviously, not even many of
12 them, but there are some.

13 There is no rule that requires a per-unit royalty.
14 There is no rule that requires a lump-sum royalty. That is
15 rule that requires a reasonable royalty. There is no
16 requirement that a particular mathematical calculation be done.
17 If it was an easy thing where you could just point to an
18 agreement or a number and break out a calculator, then we
19 wouldn't need expert testimony in this situation. The case law
20 is clear on this. Sometimes there is no magic formula to come
21 up with a number. In situations like this, where your starting
22 point is very imperfect, you have a lot of gray area here.

23 THE COURT: What do you make of the fact, which both
24 in their papers and here today defense counsel have repeatedly
25 emphasized, that the lump sum would change substantially if

1 some patents were found valid and others were found invalid,
2 and yet he maintains that the royalty rate should remain the
3 same even though it appears he derived the royalty rate from
4 saying this was all a package deal and therefore the lump sum
5 is really the best way to look at it and the royalty rate is
6 only derivative?

7 MR. CABRAL: That question related solely to the lump
8 sum analysis, not the running rate analysis, which is slightly
9 different. On the lump sum piece of it, you are right, if you
10 did take the '703 patent, which has a long life span, out of
11 the equation, it would change the overall analysis.

12 Part of the problem with this argument is that in
13 order to calculate damages, your job is to assume validity and
14 infringement of all of the asserted patents.

15 THE COURT: But nothing precludes you from saying, and
16 here is my analysis if only this one is found valid and only
17 that one is found valid. You are quite correct that the law
18 here is not all that specific. By the same token, it doesn't
19 exclude your doing that.

20 I'm wondering, what is the jury supposed to do if he
21 gives essentially the testimony he gave today or in his report
22 and they conclude that the '703 patent was not infringed?

23 MR. CABRAL: The significance I don't think is as
24 dramatic as we are being led to believe, because there is a
25 volume-based discount in the projections. When you take that

1 out of the equation at the tail end of the lump sum, you are
2 talking about a much, much lower rate, half the rate actually.

3 I think Professor Magee is prepared, and I think he
4 would have been prepared today had he been asked the questions,
5 to give the actual amounts in the event one of the patents is
6 not infringed or found invalid. He can do that certainly on
7 the running royalty part of his calculation easy enough.

8 THE COURT: The royalty part is just an arithmetic
9 calculation.

10 MR. CABRAL: That's right.

11 THE COURT: Which the jury could do, too, in that
12 situation.

13 MR. CABRAL: Absolutely.

14 THE COURT: I don't know that he can be allowed to
15 testify to something that is not in his report. You made your
16 choice, rightly or wrongly, in that regard. Was there anything
17 else you wanted to say?

18 MR. CABRAL: No. I think you had asked a question
19 about flat growth. That was the only other point. I will
20 address that point if you would like.

21 THE COURT: Go ahead.

22 MR. CABRAL: The issue here is again this relates
23 solely to the lump-sum analysis here. The issue again is that
24 damages opinions are not adjusted in real time. The goal here
25 is to conduct the focus of the analysis at the time of the

1 hypothetical negotiation.

2 In 2009 the outlook on the ebook market was incredibly
3 optimistic and positive. That continued all the way up to
4 2012. If you look at projections even in 2012, the market was
5 still rosy and great. After that, there was a decline in the
6 market and the device sales dropped. You saw that from Amazon,
7 and from Barnes & Noble, frankly.

8 I think what Barnes & Noble's counsel would like you
9 to do or would like the experts do is just project downward
10 growth now in real time because in 2014 the Nook sales are
11 dropping. What I think Professor Magee is saying, and I'm not
12 an economist and I haven't been doing this for 40 years, but
13 what I think he is saying is you can't adjust in it 2012 saying
14 the number is going to go crazy high, and in 2014 saying the
15 number is going down so I'm going to adjust it here.

16 What I think he is saying is I'm going to use a flat
17 growth rate based on the evidence available to me and some of
18 the evidence, not counting the Samsung Nook, we did know
19 about --

20 THE COURT: To put it differently, I think the null
21 hypothesis is flat growth is really what he is saying.

22 MR. CABRAL: Yes.

23 THE COURT: Let me think about that.

24 MR. CABRAL: I do think the evidence regarding the
25 pulling of the marketing and all of that information was

1 available prior to the supplemental report. We did have some
2 advance notice of this new Samsung product being released, and
3 that does account in large part for the decline of the sales,
4 and I think he was right about that.

5 THE COURT: Thank you very much.

6 Now, with respect to any and all other experts, I'm
7 happy to hear anything anyone wants to say, but I don't need to
8 hear anything unless you are dying to say it. If there is any
9 point any wants to make with respect to the other experts, now
10 is your opportunity.

11 MR. BAUER: Your Honor, in our dialogue we probably
12 have all reached a conclusion. There was the MIL, and it sort
13 of links to this. I don't know if I should address that now.

14 THE COURT: Sure, go ahead.

15 MR. BAUER: The question really is, what does the
16 expert get to say on legal stuff? By the way, every expert
17 report, we have to give them the explanation of the law.
18 That's just the way it is. They all say, I understand.

19 THE COURT: We sort of discussed this a little bit on
20 the phone the other day. To the extent that an expert gets up
21 and says, I was informed by the lawyers or I took it as a given
22 that the legal test was X, Y, and Z, and then applying that
23 test I have concluded such and such, I have no problem with
24 that as long as he is right about X, Y, and Z. If he is wrong
25 about X, Y, and Z, if he misstates the law, I will sua sponte

1 interrupt him. But if you keep to fairly broad stuff, usually
2 there is no dispute and he can state the law.

3 That is to be distinguished from him saying the law is
4 such and such. He cannot say that. He can say, I have taken
5 as my assumption that the law is such and such. It may even be
6 that if both counsel are in agreement that what he just stated
7 is right, we can tell the jury that by stipulation or something
8 like that, or I can say he got it right. But I will not have
9 any witness ever testifying as an expert on the law. That is
10 the distinction.

11 It came up in a different way. I was concerned, when
12 I saw Dr. Wang's command of the English language, that a lot
13 more of his report than just the legal part may have been the
14 product of counsel. But as we narrowed his testimony, I'm
15 content with where we are now.

16 MR. BAUER: No question, we controlled the draft. I
17 think everybody should be thankful for that perhaps.

18 Your Honor, the question on the legal then is really
19 whether the expert can say, in my opinion this claim is
20 obvious. That is the ultimate legal question. That we don't
21 think they should be able to say.

22 THE COURT: In the Federal Rules of Evidence it
23 expressly says that an expert can testify on the ultimate
24 question. Let's take a look at rule 704. "Except as provided
25 in subdivision (b)," which refers to mental state in a criminal

1 case, which near as I can tell is not yet part of this case,
2 "Except as provided in subdivision (b), testimony in the form
3 of an opinion or inference otherwise admissible is not
4 objectionable, because it embraces an ultimate issue to be
5 decided by the trier of fact."

6 Isn't that the end of it?

7 MR. BAUER: I have learned the Federal Circuit here,
8 your Honor, and it is not. I am going to ask your Honor, when
9 you take the break, there is one very recent Federal Circuit
10 case, In-Touch Technology v. VGO Communications, May 9, 2014,
11 very recent, 751 F.3d 1327. The Federal Circuit says, and I'm
12 reading from footnote 8, "The ultimate question of
13 obviousness," the ultimate question of obviousness, "the expert
14 must consider all factors relevant to that ultimate question."

15 That is why we had the debate about the secondary
16 considerations

17 THE COURT: No, no, no. This is the point we were
18 talking about with Dr. Wang. If an expert is only an expert on
19 one aspect of obviousness, he is not in a position to give an
20 opinion as to obviousness as a whole. He gives his opinion on
21 element X of obviousness, and you get, either through another
22 expert or through other evidence, you get in the other, and
23 then you make the argument to the jury that the conclusion is
24 nonobvious or obvious, whichever side you are on.

25 If he is an expert on all the elements of obviousness,

1 which Dr. Wang clearly is not, but if some expert were, and I
2 see nothing in what you just read me that contradicts, then he
3 can give an opinion on obviousness.

4 MR. BAUER: Your Honor, it is just that was the basis
5 of our motion regarding Mr. Neuman. It should be the same.
6 Neither of the experts should be able to say in their opinion
7 the claims are obvious. They can both talk about the
8 technology. They can both say what is missing. They can even
9 say that the thing that is missing might have been obvious to
10 people of ordinary skill, the element that is missing, the
11 technology that is missing.

12 But they cannot say, and neither of us gets a sound
13 bite from an expert saying "in my opinion the claim," the
14 claim, the claimed invention -- that is the ultimate legal
15 conclusion -- is obvious, because neither of them is
16 considering the secondary considerations and all that other
17 stuff. That's the distinction we have here.

18 THE COURT: All right. I will think about that with
19 respect to Neuman.

20 MR. BAUER: With respect to the MILs, Mr. Neuman's
21 supplemental report has him talking about section 101 and 112.
22 Those are both purely legal issues for your Honor, and we don't
23 think there should be any testimony from him talking about
24 whether the claim is definite or indefinite. We did that in
25 the claim construction with your Honor. Nor should they be

1 talking about whether these claims were invalid under Alice and
2 the Supreme Court case. That is what the supplemental report
3 is and that is what the MIL is directed to.

4 THE COURT: All right. Go ahead.

5 MR. BERTA: I appreciate it, your Honor. Let me
6 quickly work through the things I would like to say.

7 First, there was the suggestion that Dr. Neuman's
8 views with respect to obviousness, which is one of the issues
9 that we primarily talked about here today, the representation
10 that was made today, is the first day that we are learning
11 about it.

12 What actually happened was at his deposition, which we
13 can submit if you want, from pages 47 through 74 were about
14 a million questions on whether what was in the report was or
15 wasn't in anticipation of obviousness. They asked a hundred
16 ways from Sunday, didn't you use the word "anticipation" here
17 and there and everywhere. He said yes, but the predicate basis
18 for my obviousness view in light of Wang's response also, the
19 factual predicate for that is laid out in my report.

20 They never asked him what his response to Wang was.
21 We spent 47 to 74 talking about whether it was in the body of
22 his report. So, there was absolutely fair notice that he had a
23 view in response to Wang. They just chose not to ask so that
24 they could say today we haven't heard it. On the issue of
25 whether there is fairness or there is ambush going here, that

1 is not true. We were ready to go.

2 Secondly, there is a little bit of a distinction here
3 on the issue of secondary considerations between Dr. Neuman and
4 Dr. Wang. They have the burden of production if they are going
5 to rely on secondary considerations when an expert proffers a
6 prima facie case of obviousness. That's what happened. We say
7 obvious because we had the opening burden on the report. They
8 say, we disagree and also here are the secondary
9 considerations.

10 THE COURT: That's a good point. You're saying you
11 don't need to have an expert give an opinion on obviousness,
12 you don't have to have your expert assess the secondary
13 considerations to give that ultimate decision, because your
14 burden doesn't include consideration of the secondary
15 considerations?

16 MR. BERTA: To be perfectly honest, I want to agree
17 with you except that I think if they do proffer secondary
18 considerations, I think our expert probably should respond to
19 whether he believes that is or isn't secondary considerations.
20 Let me boil it to a specific example. I think we have the
21 Hendricks video and I think he might have said, I got an award,
22 I don't remember, I don't know, but I think that is probably
23 come in that he got an award.

24 He also talked about a long-felt need for books with
25 encryption. They say, Wang says, well, there was a long-felt

1 need for books encryption and the '851 patent satisfies it.
2 They are going to argue that there is evidence of a long-felt
3 need because Hendricks said there was.

4 The response to that for us is you only get to have
5 long-felt need as a factor as a secondary consideration if you
6 show that what you purport to be the long-felt need was not in
7 the prior art. It is undisputed in this case with respect to,
8 for example, the Sachs reference that patents existed on books
9 plus encryption. That couldn't have been the long-felt need
10 satisfied.

11 Dr. Neuman, who is familiar with the prior art because
12 he was around at the time and has now looked at it, certainly
13 has the opinion that the scope and content of the prior art
14 means that the long-felt need could not have been encrypted
15 books with security.

16 We should be able to have a way to respond to that
17 evidence with a person of skill in the art at the time who knew
18 at the time that actually books plus encryption couldn't have
19 been a need that existed. That's where we are. Having them
20 having identified the secondary considerations through Wang to
21 the extent they are valid, we should be able to criticize them,
22 and some of the criticism does involve the knowledge of a
23 person of skill in the art at the time, which he is.

24 THE COURT: Let me mull on all that.

25 Go ahead, counsel.

1 MR. BERTA: Actually, I have one last issue.

2 THE COURT: Go ahead. The evening is young.

3 MR. BERTA: I completely agree that the decision is
4 yours, it is yours, with respect to indefiniteness and with
5 respect to 101. The question isn't whose decision it is. It's
6 whether there are facts that an expert can bring to the table
7 that may assist this Court in its determination.

8 I'm not certain I'm of the view that we should do a
9 101 presentation to the jury. It could be confusing, or an
10 indefiniteness presentation to the jury, unless you want an
11 advisory opinion. However, if we are having a trial on
12 invalidity, that evidence has to come in somehow to the extent
13 the Court were to find it helpful. I think our expert has
14 views as to why a person of skill in the art, him being one --

15 THE COURT: I'm not interested in an advisory opinion.
16 But that actually makes me think of something else, which we
17 should probably discuss next week rather than tonight, which is
18 to the extent the defense here is asking for declaratory
19 relief, that is for the Court, not the jury. It may follow
20 like night follows day from the jury's verdict, but
21 nevertheless I point out that that will be a decision that the
22 Court will have to make.

23 Yes?

24 MR. BAUER: Very short, your Honor. I welcome your
25 Honor to read the six or seven pages he just talked about in

1 the deposition transcript. If I can give it to your Honor?

2 THE COURT: Yes.

3 MR. BAUER: The yellow highlight is just where it
4 begins.

5 Your Honor, what you will notice is that about every
6 third question is objected to. Wait until you read those ten
7 pages and see what Mr. Cabral went through trying to get to the
8 obviousness argument after the witness said, I have nothing in
9 here about obviousness.

10 THE COURT: OK.

11 MR. BAUER: The last thing is on that issue about
12 secondary, you're right, it's rebuttal, but they have to give
13 us the report. The issue of secondary considerations and
14 obviousness, maybe he didn't have it in his first opinion when
15 he saw when we were doing. There's got to be a supplemental
16 report. You don't get it here and you don't get it through
17 that transcript.

18 THE COURT: All right.

19 MR. BAUER: Thank you.

20 MR. BERTA: I don't know what pages he handed your
21 Honor.

22 THE COURT: He handed me 48 through 77.

23 MR. BERTA: Thank you. Those are the ones I said.

24 MR. BAUER: I'm an honest guy, your Honor. Thank you.

25 THE COURT: Last thing. First, I will get you these

1 rulings in a bottom line sense -- let me ask plaintiff's
2 counsel, who is the first witness on Tuesday?

3 MR. BAUER: Mr. Mulchandani, who is their witness.
4 They are going to take him first, out of order.

5 THE COURT: After that?

6 MR. BAUER: Then it is our expert, Mr. Berk, the
7 infringement expert.

8 THE COURT: Who is not being --

9 MR. BAUER: Who is not challenged.

10 THE COURT: Right. I was going to say I'll get you
11 the rulings on Monday, but I'll get it to you when we convene
12 on Tuesday, give it to you right then.

13 MR. BAUER: While we were doing this, we marked up
14 your preliminary instruction. I think there is only one place
15 where there is a disagreement.

16 THE COURT: Hand it up to my law clerk.

17 MR. BAUER: The blue was my ink. I had crossed out
18 one line where they wrote the word "stet." I think the rest of
19 these were really meant to get it a little more clear. I'm
20 glad to see that they have agreed with most of my suggestions.
21 The "stet" one, that really goes to the issue of the MIL,
22 whether the experts can testify to that.

23 THE COURT: I have no problem with these changes. Are
24 these agreeable to both sides?

25 MR. BERTA: The thing that is written out actually is

1 a different issue than the MILs.

2 THE COURT: We don't have to worry about that.

3 MR. BAUER: For the preliminary, it doesn't matter.

4 THE COURT: For the preliminary instruction, the only
5 changes are in the sentence that begins in the middle of the
6 second paragraph "If an element." It now reads, "If the Nook
7 Devices include all of the elements of a claim of the various
8 patents, then infringement has occurred." The second sentence,
9 right after that, "In addition, if an element of the Nook
10 device is substantially equivalent to an element of any one or
11 more of the claims."

12 The only other changes are in the next paragraph, at
13 the end: "either because the inventions they described lacked
14 novelty or because they were obvious in view of the prior
15 inventions or because they did not clearly and adequately
16 describe the invention."

17 Then there are a couple of other trivial usage
18 changes.

19 Any problem with any of those changes?

20 MR. BERTA: No, your Honor.

21 MR. BAUER: No, your Honor.

22 THE COURT: Very good. I'll get this in final. I am
23 going to distribute it to the jury and read it to them first
24 thing on Tuesday.

25 I would love to have you stick around, but if you want

to leave, you are more than welcome to. I thank you very much
for all your help tonight. Thanks a lot.

(Adjourned to 2:00 p.m., October 14, 2014)